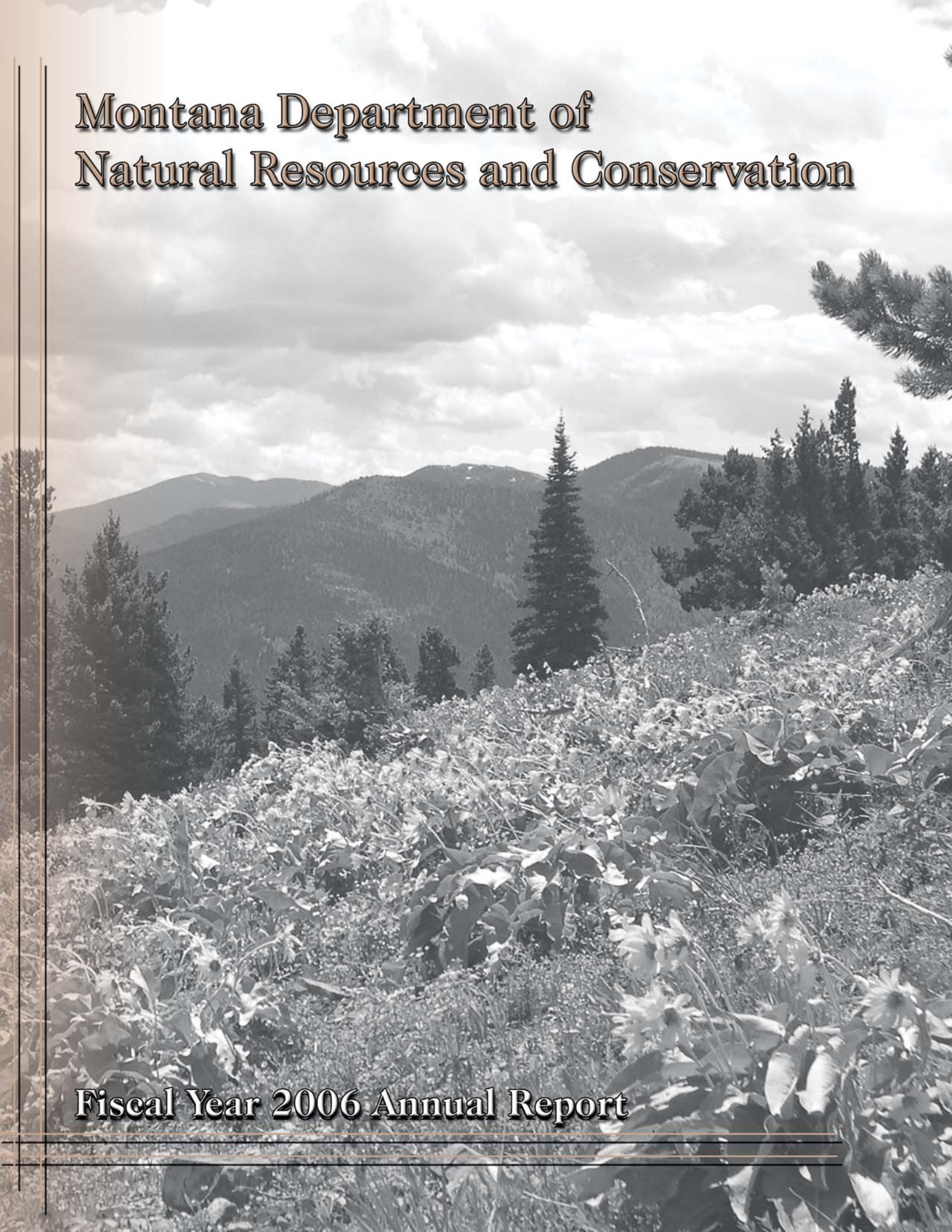
Montana Department of Natural Resources and Conservation



Fiscal Year 2006 Annual Report

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DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

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STATE OF MONTANA
DIRECTOR'S OFFICE (406) 444-2074
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HELENA, MONTANA 59620-1601

Dear Reader:

Welcome to the annual report of the Department of Natural Resources and Conservation (DNRC). As we progress into 21st century, our task of ensuring that Montana's land and water provide benefits now and into the future presents challenges and opportunities. From wildland fires to continuing drought and changing water use, DNRC is at the forefront of natural resource issues in Montana. This annual report is intended to present an objective portrayal of DNRC's programs and accomplishments during Fiscal Year 2006 (which ended on June 30, 2006).

Some of the highlights from this year's report include:

- Revenues generated from income sources in the management of state trust lands surpassed $105 million, $16 million higher than the previous year.
- Loan portfolios for pollution control, and drinking water systems along with other resource development grants grew to more than $300 million within the Conservation and Resource Development Division.
- The department began an enterprise approach to Geographical Information Systems (GIS) by streamlining our purchases and better sharing information.
- Through the Federal Excess Property Program, DNRC obtained supplies, vehicles, and aircraft with a total value of more than $2 million.
- The Board of Oil and Gas Conservation saw substantial increases in production primarily because of horizontal Bakken Formation oil development in Richland County.
- The Reserved Water Rights Compact Commission concentrated on many Tribal and federal negotiations: Blackfeet Tribe, Confederated Salish and Kootenai Tribes, Gros Ventre and Assiniboine Tribes, U.S. Department of the Interior National Wildlife Refuges, and U.S. Department of Agriculture.
- Additional staff was hired under HB22 to expedite DNRC water right claim examination and issuance of Water Court decrees in the statewide adjudication process.

For DNRC to be effective, the public and our constituents need to understand our operations. Please let me know how you feel we are doing and what we can do to serve you better.

Sincerely,

Mary Sexton, Director

Introduction

Introduction

"Helping to ensure Montana's land and water resources provide benefits for present and future generations" is the mission of the Montana Department of Natural Resources and Conservation (DNRC).

First established in 1971 as a result of the Executive Reorganization Act of 1971, the department provides leadership in managing the state's natural resources. In 1995 the department was reorganized as part of the reorganization of Montana's natural resource and environmental agencies. It is presently responsible for promoting the stewardship of Montana's water, soil, forest, and rangeland resources and for regulating forest practices and oil and gas exploration and production.

Department Organization

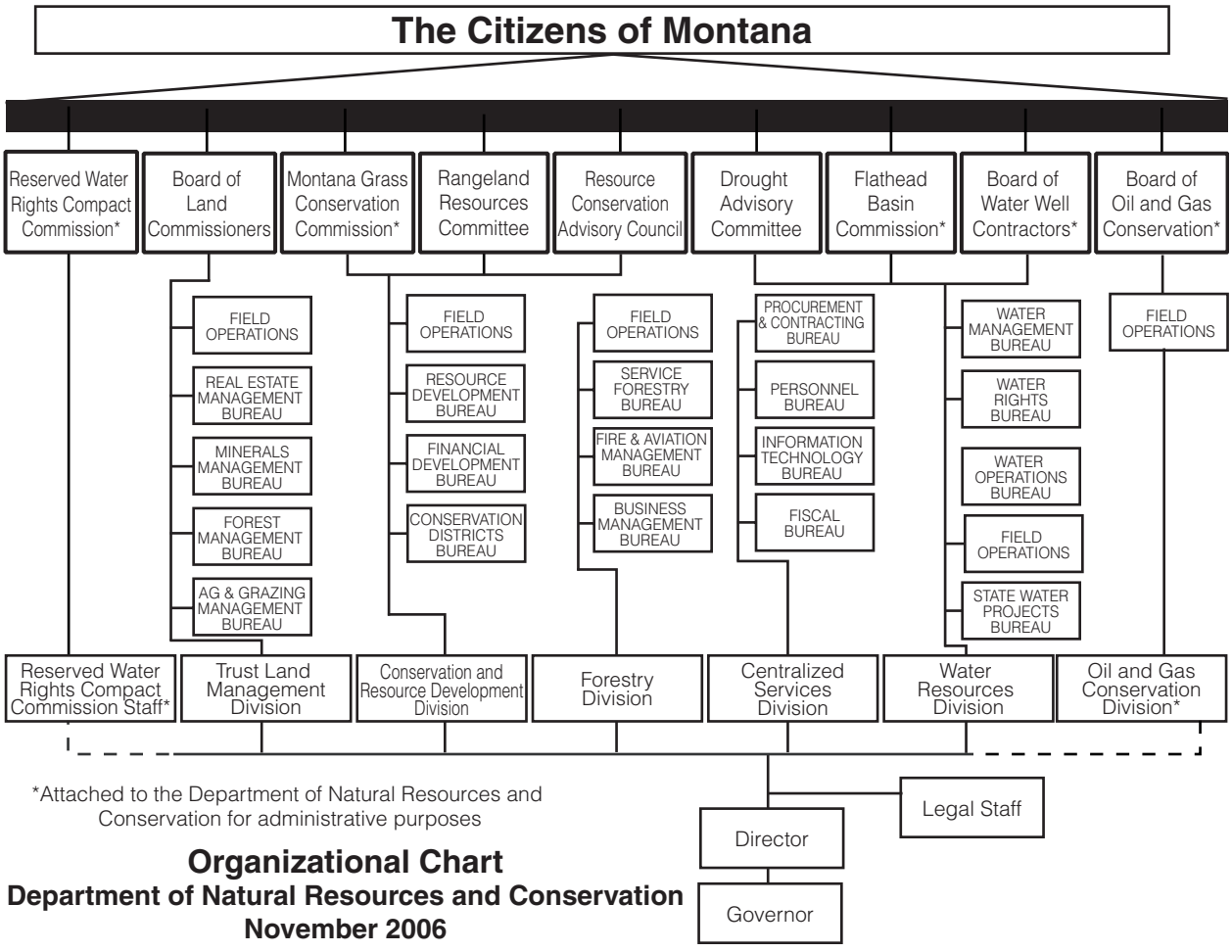
The director of the Department of Natural Resources and Conservation is Mary Sexton.

As shown in our organization chart, nine boards and commissions are attached to the department. Six of them — the Board of Land Commissioners, Reserved Water Rights Compact Commission, Board of Oil and Gas Conservation, Board of Water Well Contractors, Flathead Basin Commission, and Montana Grass Conservation Commission — have decision-making authority. The other three — the Resource Conservation Advisory Council, Rangeland Resources Committee, and Drought Advisory Committee — act in an advisory capacity only.

The department is organized into seven divisions:

- Centralized Services
- Conservation and Resource Development
- Forestry
- Oil and Gas Conservation
- Reserved Water Rights Compact Commission
- Trust Land Management
- Water Resources

Two of the divisions — the Oil and Gas Conservation Division and the Reserved Water Rights Compact Commission — are attached to the department for administrative purposes only.



Organizational Chart
Department of Natural Resources and Conservation
November 2006

About the Director


Mary Sexton

Originally from Great Falls, Montana, Mary graduated from CMR High School and has degrees from Stanford University and the University of Montana.

She taught high school in Hamilton, MT and was administrator of The Nature Conservancy's Pine Butte Swamp Preserve, west of Choteau.

She is involved with both agriculture and tourism businesses. Mary has served on boards including the Public Wildlife/Private Lands Council, BLM Resource Advisory Council, and the Teton County Commission from 1999-2004.

Mary is married with one daughter.

To contact the Director's office, please call 406/444-2074.

Division Duties and Responsibilities

Centralized Services

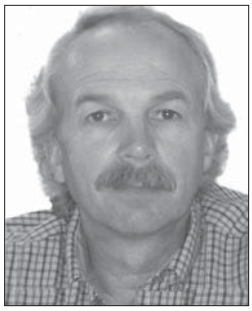

Ann Bauchman

The Centralized Services Division (CSD) provides administrative and operational support to all DNRC divisions. Support services include financial management, purchasing, data processing, personnel, legal, reception, and mail. The division coordinates information services and prepares publications and graphic materials for printing. Trust revenues are collected and distributed, and ownership records for trust and nontrust lands are maintained.

The CSD administrator is Ann Bauchman. For more information, you can visit the CSD website at www.dnrc.mt.gov/csd. To contact CSD, please call 406/444-2074.

Conservation and Resource Development

The Conservation and Resource Development Division (CARDD) coordinates, supervises, and provides financial and technical assistance to Montana's 58 conservation districts, and it provides technical, financial, and administrative assistance to public and private entities to complete projects that put renewable resources to work, increase the efficiency with which natural resources are used, or solve recognized environmental problems. The division provides administrative support to the Montana Grass Conservation Commission. The division receives advice and guidance from two other attached bodies: the Resource Conservation Advisory Council and the Rangeland Resources Committee.


Ray Beck

The CARDD administrator is Ray Beck For more information, you can visit the CARDD website at www.dnrc.mt.gov/cardd. To contact CARDD, please call 406/444-6667.

Forestry


Bob Harrington

The Forestry Division protects the state's forested and nonforested watershed lands from wildfire; provides aviation services; operates a nursery and provides shelterbelt, windbreak, wildlife habitat improvement, reclamation, and reforestation plantings on state and private lands; and regulates forest practices and wildfire hazards created by logging or other forest management operations on private lands.

The Forestry administrator is Bob Harrington. For more information, you can visit the forestry website at www.dnrc.mt.gov/forestry. To contact forestry, please call 406/542-4300.

Oil and Gas Conservation


Tom Richmond

The Board of Oil and Gas Conservation (BOGC) and its technical support staff are attached to the department for administrative purposes. The quasi-judicial board is comprised of seven members consisting of industry representatives, landowners, and an attorney. They administer Montana's oil and gas laws and the federal Underground Injection Control Program to promote conservation and prevent waste in the

recovery of these resources through regulation of oil and gas exploration and production. The board and its staff issue drilling permits; classify wells; establish well spacing units and land pooling orders; inspect drilling, production, and seismic operations; investigate complaints; conduct engineering studies; and collect and maintain complete well data and production information.

The BOGC administrator is Tom Richmond. For more information, you can visit the BOGC website at www.bogc.dnrc.mt.gov. To contact BOGC, please call 406/656-0040.

Reserved Water Rights Compact Commission


Susan Cottingham

The Reserved Water Rights Compact Commission (RWRCC), which is also administratively attached to the department, was created by the legislature in 1979 as part of the water rights adjudication effort. Commissioners are appointed by the governor, the attorney general, the speaker of the House of Representatives, and the president of the Senate. The nine-member commission and its support staff negotiate water rights with Indian Tribes and federal agencies to establish a formal agreement on the amount of water to be allocated to each interest.

The RWRCC administrator is Susan Cottingham. For more information, you can visit the RWRCC website at www.dnrc.mt.gov/rwrcc. To contact RWRCC, please call 406/ 444-6841 or email dnrrwrcc@mt.gov.

Trust Land Management


Tom Schultz

The Trust Land Management Division (TLMD) is responsible for managing the surface and mineral resources of forested, grazing, agricultural, and other classified state trust lands to produce revenue for the benefit of Montana's public schools and other endowed institutions. The Board of Land Commissioners oversees the administration of the state trust land in Montana, as directed by the Montana Constitution. This board consists of Montana's top elected officials: the governor, superintendent of public instruction, secretary of state, attorney general, and state auditor.

The TLMD administrator is Tom Schultz. For more information, you can visit the TLMD website at www.dnrc.mt.gov/trust. To contact TLMD, please call 406/444-2074.

Water Resources

The Water Resources Division is responsible for many programs associated with the uses, development, and protection of Montana's water. The division also develops and recommends water policy to the director, governor, and legislature. The division consists of an administration unit and four bureaus: water management, water rights, state water projects, and water operations. Attached to the Water Operations Bureau is the Board of Water Well Contractors, a quasi-judicial board that can issue, suspend, or revoke licenses; promulgate rules and regulations; investigate complaints; and hold disciplinary hearings. The Flathead Basin Commission was transferred from the Governor's Office to DNRC for the 2005 biennium for administrative purposes. The Drought Advisory Committee is also attached to the Water Resources Division.


John Tubbs

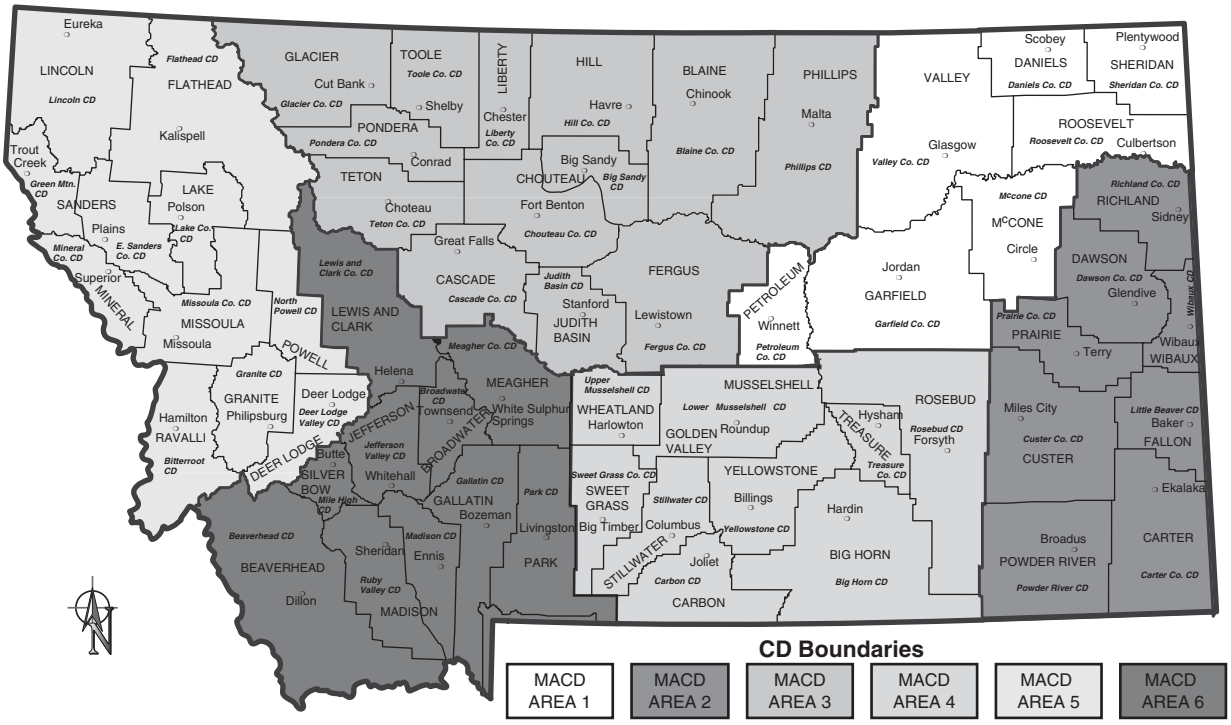
The WRD administrator is John Tubbs. For more information, you can visit the WRD website at www.dnrc.mt.gov/wrd. To contact WRD, you can call 406/444-6601.

Field Operations

Although the department headquarters is located in Helena, the field operations for the department's programs are performed through field offices and personnel located in 29 different communities. Included are both full time and seasonal employees from the Conservation and Resource Development; Forestry; Oil and Gas Conservation; Trust Land Management, and Water Resources Divisions. To view area and current project information, please visit the field operations website at www.dnrc.mt.gov/field_operations.

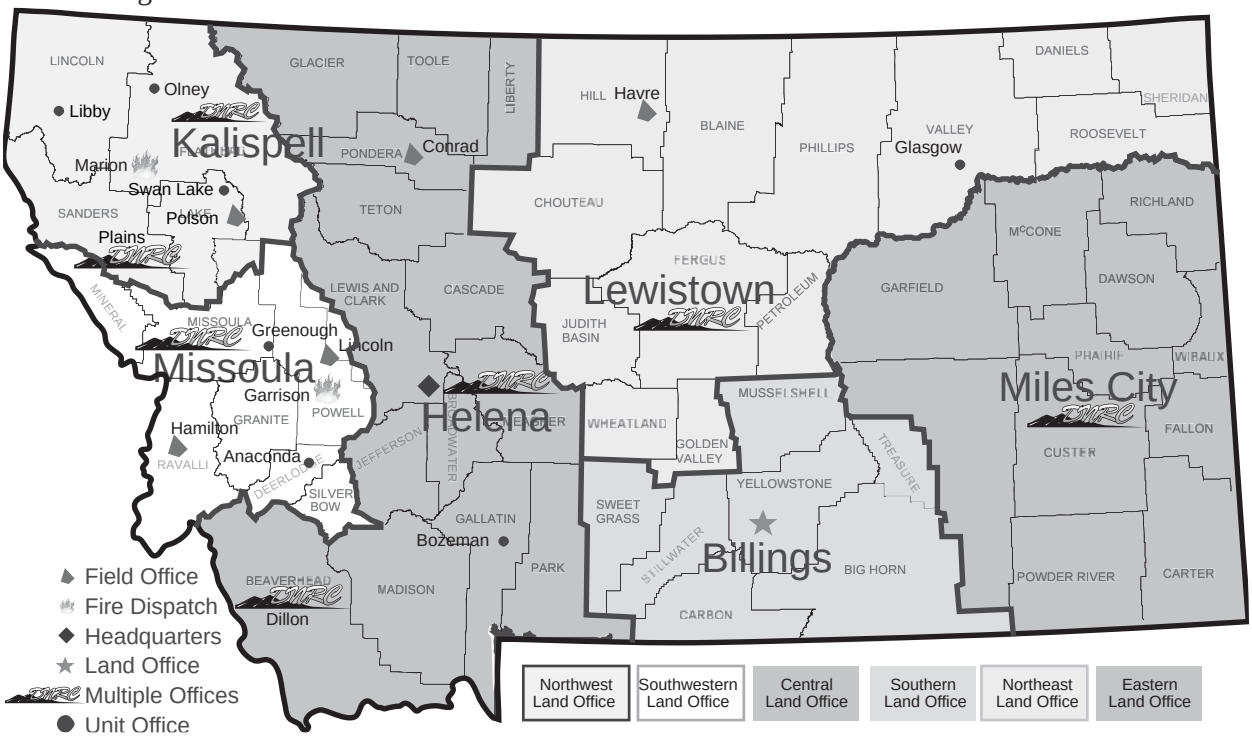
Conservation District Offices

Conservation & Resource Development offices are responsible for integrating and implementing programs for Conservation & Resource Development Division.



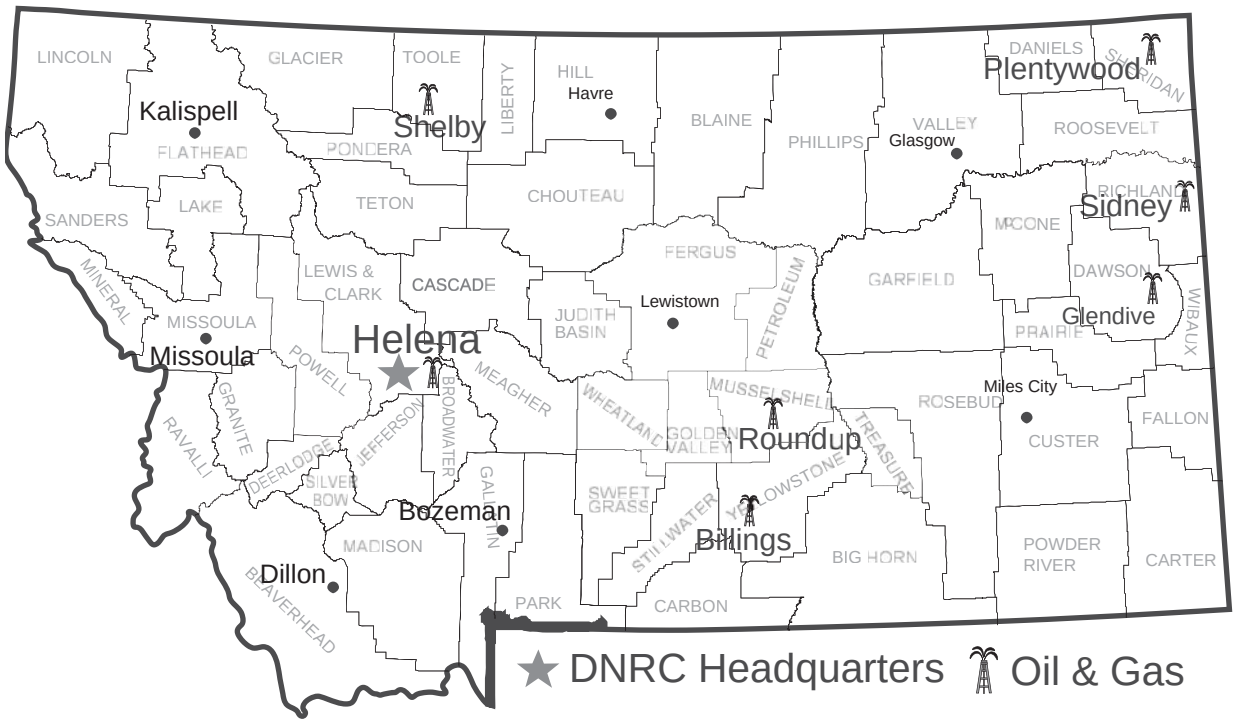
Area Offices

Area offices are responsible for managing and implementing programs for both the Forestry and Trust Land Management Divisions.



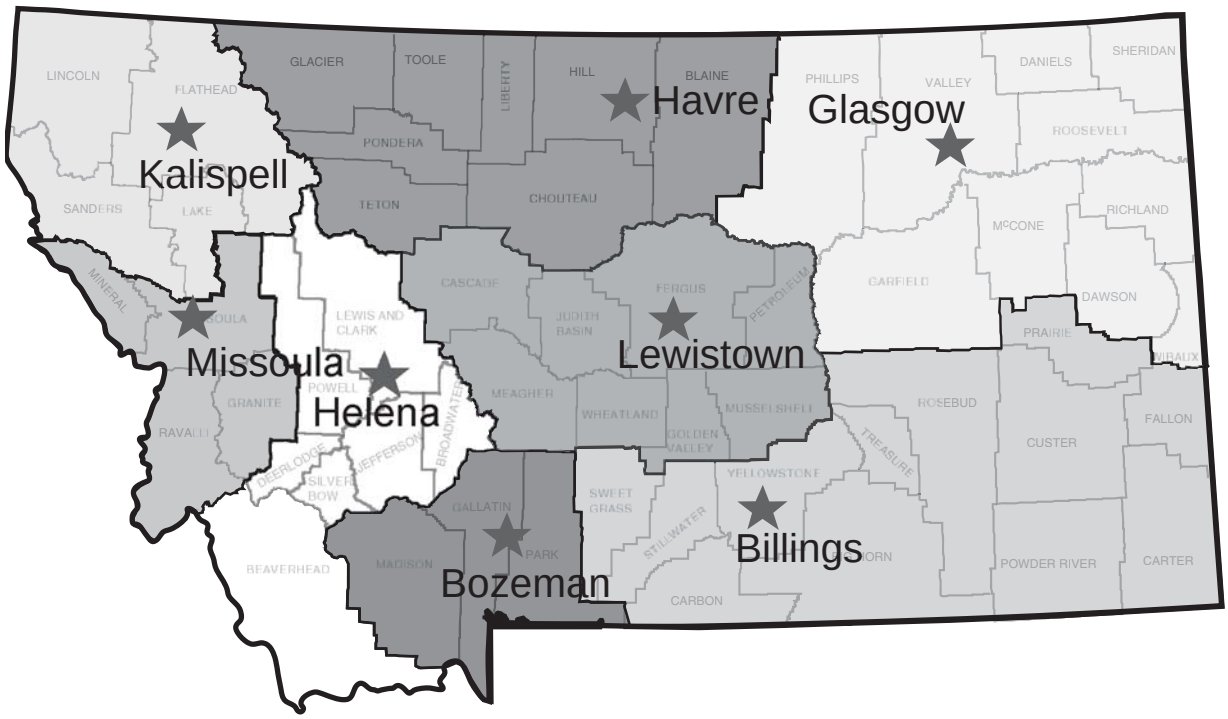
Board of Oil and Gas Conservation Offices

Oil and Gas offices facilitate programs for Montana Board of Oil and Gas Division.



Regional Offices

Regional water offices are responsible for Water Resources Division operations and programs.



Financial Information

Table 1 presents budget and funding information for DNRC for FY 2006.

Information on two of the department's funding sources, the Resource Indemnity Tax and the Coal Severance Tax, can be found in Appendix A.

Table 1
FY 2006 DNRC Budget and Funding

Expenditures		Funding	
Personal Services	$ 29,995,443	State Special Revenue Fund	$ 24,380,817
Equipment	1,214,186	Non-Budgeted Private Fund	240,331
Grants	5,147,244	Proprietary Fund	1,912,142
Debt service	411,335	Federal Special Revenue Fund	8,660,045
Transfers	1,609,421	General Fund	24,630,493
Capital outlay	92,060		
Operating expenses	21,354,139		
Total	**$ 59,823,828**	**Total**	**$ 59,823,828**

Figure 1
Expenditures

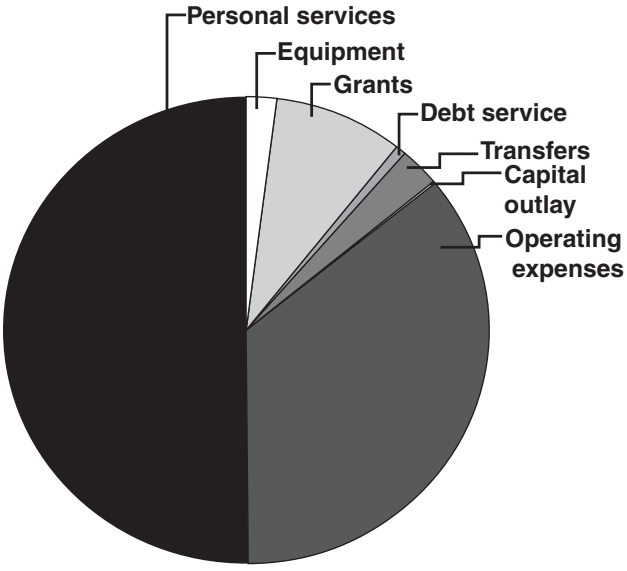
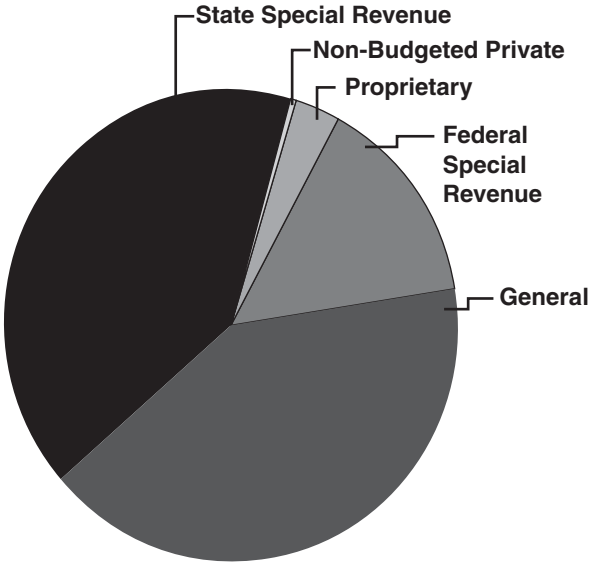


Figure 2
Funding



Websites featured in this section:

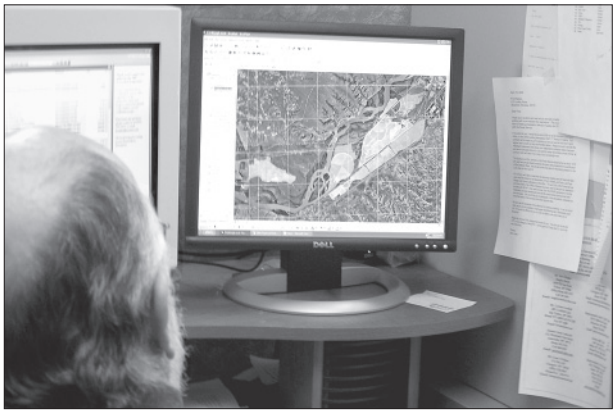
www.dnrc.mt.gov/csd
www.dnrc.mt.gov/cardd
www.dnrc.mt.gov/forestry
www.bogc.dnrc.mt.gov
www.dnrc.mt.gov/rwrcc
www.dnrc.mt.gov/trust
www.dnrc.mt.gov/wrd
www.dnrc.mt.gov/field_operations

Centralized Services Division

Centralized Services Division

The Centralized Services Division provides managerial and legal services to the department through the Director's Office. The division also manages all financial activities, contracting, and procurement; oversees personnel policies and functions; coordinates computer systems; provides public information and media relations tasks; enhances web design and services; and provides general administrative support services. Support services include payroll, data entry, reception, and mail. Fiscal responsibilities include trust revenue collection and distribution, as well as bond and loan accounting.

For more information, please see our website at www.dnrc.mt.gov/csd.



DNRC is looking forward to a new enterprise GIS system. The system will enable cooperation and data sharing on GIS projects for accurate GIS data. Photo by Janel M. Favero

In Fiscal Year (FY) 2006, the division assisted with the new Land Banking Program, as well as the augmentation of Water Adjudication and Fire Pre-Suppression efforts. The addition of 60 new employees stretched resources within the division for computer, financial, and human resources support.

The Personnel Bureau has been involved in a number of key human resources activities. For the past year, training efforts have embraced web-based learning. Employees can enjoy a number of unique training programs without ever leaving their work unit. "Microburst" training (condensed training) has also proved to be a good tool in the training of a busy work force.

The Procurement and Contracting Bureau established a variety of annual agreements for the procurement of goods and services that allow employees to contract directly with vendors and contractors. These agreements helped reduce the number of requisitions. "Best Value" contracting for fire suppression goods and services continues to be a joint effort with state and federal partners. Bureau staff responded to various departmental matters such as the Leased Vehicle Program and the expanded use of ProCard, a credit card for state employees. The ProCard manual was rewritten and posted on the Department of Natural Resources and Conservation (DNRC) website.

"Microburst" training (condensed training) has proven to be a good tool in the training of a busy work force.

In FY 2006, the Information Technology Bureau (ITB) continued to meet the department's needs in public information, web services, computer support and security, and software development. Agency demand for ITB services was stronger than ever over the past year. The department has discovered the necessity of an effective public information program with requests for services of the public information officer coming from across the department. The department re-tooled its web page to conform with a state-wide standard design.

"Best Value" contracting for fire suppression goods and services continues to be a joint effort with state and federal partners.

Legislative auditors were on site reviewing financial records for Fiscal Years 2005 and 2006. Department contracts and grants were moved to a new internal database offering better tracking and reporting for programs. Loans are scheduled to move to the new system within the coming year.

Websites featured in this section:

www.dnrc.mt.gov/csd

Conservation and Resource Development Division

Conservation and Resource Development Division

Provide technical and financial assistance to local governments, state agencies, and private citizens for the conservation, development, protection, and management of the state's natural resources.

The Conservation and Resource Development Division (CARDD) helps manage natural resources and finance conservation, resource management, and reclamation activities. The division has 27 employees who administer the work of the Conservation Districts Bureau, the Financial Development Bureau, and the Resource Development Bureau.

For more information, please visit our website at www.dnrc.mt.gov/cardd/

At the annual Montana Youth Range Camp, attendees learn rangeland management. Photo by Ross Campbell

Conservation Districts Bureau

Under state law, the Conservation Districts Bureau (CDB) is responsible for assisting Montana's conservation districts and state grazing districts. A conservation district (CD) is a legal subdivision of state government that: (1) develops and carries out long-range programs that conserve and improve soil and water resources within its boundaries, and (2) encourages maximum participation by the general public and all local public and private agencies to fulfill this purpose.

CDB works with the people of Montana on these eight areas of conservation and resource management:

- conservation district supervision and assistance;
- watershed efforts and projects;
- rangeland management coordination;
- stream protection;
- natural resource conservation education activities;
- grant and loan programs;
- resource conservation and development; and
- salinity control.

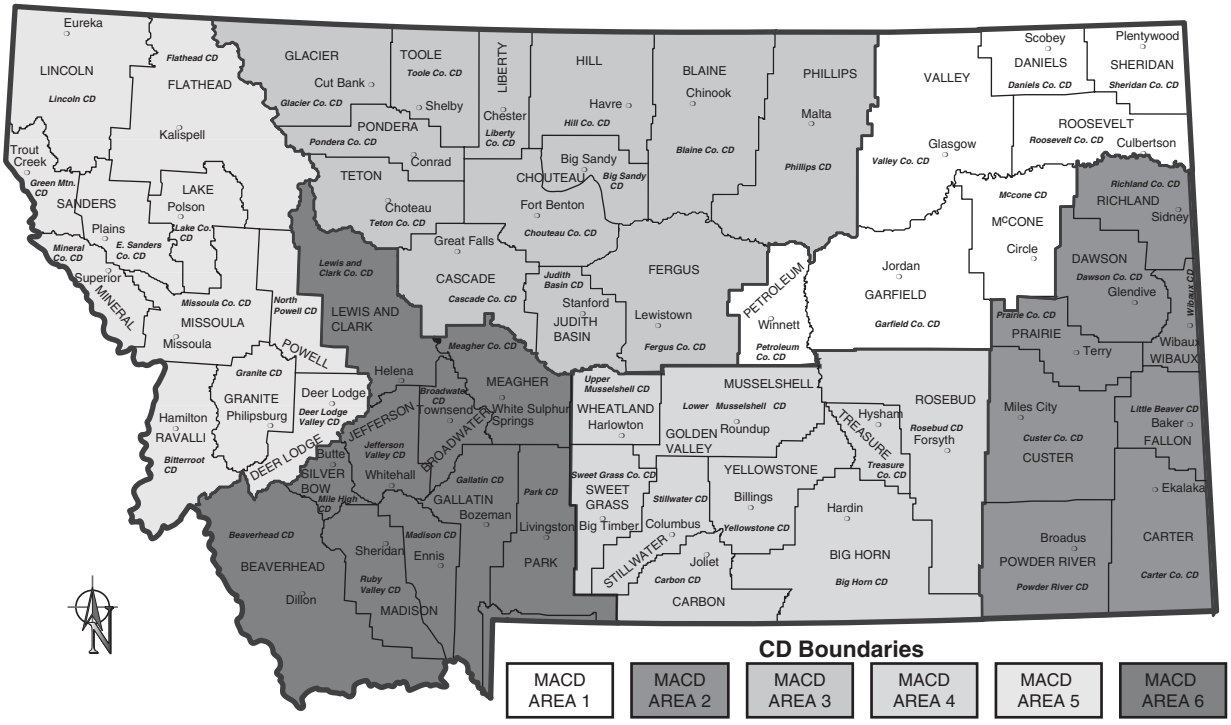
Conservation District Supervision and Assistance

By law, the CDB is required to provide organizational, technical, legal, and financial assistance to Montana's 58 conservation districts (see Figure 3). This assistance is provided to CDs through a variety of programs developed to assist CDs in meeting mandated duties. CDs are political subdivisions of state government that address soil and water conservation and administer the Natural Streambed and Land Preservation Act. The CDB contracts for legal and technical services for conservation district administration of the act. Grants were provided to CDs for legal services for project review and procedural advice, contract review, water reservation assistance, and work associated with Dry Prairie Rural Water Authority, on which CD members serve. In Fiscal Year (FY) 2006, CDB helped organize and participated in new CD employee orientation sessions, and supervisor workshops focusing on watershed planning and financial responsibility; conducted real estate workshops; and participated in stream permitting workshops for contractors, CD supervisors, and landowners.

The Resource Conservation Advisory Council, which consists of seven members serving at the pleasure of the Governor, meets four times a year, provides advice and assistance on conservation matters, and sets guidelines for CDB grant programs. Current members are:

Member	Town	Representing
Bob Breipohl	Saco	North Central Montana
Robert Anderson	Poplar	General Public
Robert Fossum	Richland	Eastern Montana
Marieanne Hanser	Billings	South Central Montana
Dave Schwarz	Terry	Conservation Districts
Mike Wendland	Rudyard	Conservation Districts
Vicki McGuire	Eureka	Western Montana

Figure 3
Montana's Conservation Districts



The Conservation Districts Bureau also works with the Montana Association of Conservation Districts (MACD) and the National Association of Conservation Districts (NACD) to address natural resource concerns on the state and national level.

Watershed Efforts and Projects

Through the capacity-building program, conservation districts have identified the need for watershed planning as a high-priority goal. Conservation districts, as the local entity responsible for addressing non-point source water pollution, play a key role in developing local watershed plans. CDB provides technical and financial assistance to conservation districts in support of watershed efforts. In addition, CDB participates on the Watershed Coordinating Council, a group of state and federal agencies and private organizations that coordinates programs in Montana that address aspects of watershed management.

Watershed Planning and Assistance Grant Program

The purpose of the Watershed Planning and Assistance Grant (WPAG) Program is to assist conservation districts and affiliated local watershed groups with expenses associated with watershed planning. Funds can be used for collection of baseline resource information, facilitators, development of a watershed management plan, training, educational efforts, or incidental costs associated with watershed planning.

In FY 2006, grants totaling $99,425 were awarded to 11 districts. Four resource assessment grants, six coordination grants, and one education grant were funded. The resource areas included weeds, water quantity, and water quality. The size of these projects ranged from small watersheds to large basins. The projects funded are listed in Table 2.

Stream Assessments

During FY 2006, CDs throughout Montana conducted several comprehensive stream corridor assessments in collaboration with the Natural Resources Conservation Service (NRCS) and Department of Natural Resources and Conservation (DNRC). Assessments included:

- Brown's Gulch - Mile High CD
- Boulder River - Sweet Grass County CD
- Marias River - Pondera, Toole, Liberty, and Glacier counties CDs
- Mill Creek - Flathead CD
- Smith River - Meagher and Cascade counties CDs

Table 2
Watershed Planning and Assistance Grants Awarded in FY 2006

Conservation District	Project Name	Grant Amount
Beaverhead	Beaverhead Watershed Group	$ 10,000
Beaverhead	Big Hole Watershed Group & Planning	9,000
Bitterroot	Bitterroot Watershed Activities	4,000
Chouteau	Teton River Watershed Project Update	3,000
Glacier	Marias River Watershed Coordination	10,000
Granite	Upper Clark Fork Steering Committee	10,000
Lower Musselshell	Lower Musselshell Watershed Coordination	7,475
Missoula	Lolo Creek Watershed Activities	5,500
North Powell	Blackfoot Challenge Watershed Planning	5,000
Park	Upper Yellowstone Watershed Activities	10,000
Petroleum	Musselshell/Mosby Watershed Activities	5,450
Rosebud	Tongue River Watershed Group	10,000
Rosebud	Rosebud Watershed Group Activities	10,000
		Total $ 99,425

The purpose behind these stream assessments is to provide baseline resource information to conservation districts, watershed groups, landowners, and agencies to further their understanding about stream conditions and function in their areas. Most assessments eventually lead to voluntary restoration projects that utilize DNRC grant funds and/or NRCS conservation programs.

Rolling Rivers Trailers

CDB collaborates with MACD in the Rolling Rivers Trailer Program by providing technical support. The Rolling River is a five-by-ten-foot utility trailer with a six-inch-deep bed that is filled with "sand" (actually, recycled plastic granules). A meandering river or two is scooped out, running from one end to the other. Small figures of buildings, animals, and machinery are placed on top. When water is turned on at the top of the watershed, it flows through the river and demonstrates a variety of water-related lessons, including stream health and good stewardship.

Four trailers operate in the state: (1) a demonstration trailer coordinated by CDB out of Helena, (2) a trailer in northwestern Montana sponsored by Flathead CD, (3) a trailer in eastern Montana coordinated by Richland County CD in Sidney, and (4) a trailer based out of Cascade County CD in Great Falls.

Since 2003, the four Rolling Rivers trailers have made 102 presentations to more than 21,500 people. Audiences included both adults and children. During FY 2006, CDB made 19 additional presentations to 2,227 people. Development of training workshops and promotional/educational materials continues, which increases effectiveness of the trailers. A Rolling Rivers Trailer is displayed at the Northern International Livestock Expedition (NILE) in Billings every fall; fourth and fifth graders from the area attend.

Students gather around the Rolling Rivers Trailer to learn about watershed management. Photo courtesy of Lower Musselshell CD

Rangeland Resource Coordination

The Rangeland Resource Program has four major areas of emphasis:

- working with county range committees, conservation districts, and producer groups to foster sound rangeland management;
- encouraging coordination and cooperation between private, state, and federal entities involved in range management;
- administering the Rangeland Improvement Loan Program; and
- co-sponsoring the Governor's Range Tour, Winter Grazing Seminar, and Montana Youth Range Camp.

The program receives guidance from the Rangeland Resource Executive Committee, which is composed of six ranchers located across the state and appointed by the Governor. Members include:

Chair Les Gilman, Alder;
Vice-Chair John Hollenback, Gold Creek;
Bob Anderson, Culbertson
Quinn Haughian, Terry
Steve Hedstrom, Raynesford; and
Michael Lane, Three Forks.

In addition, an ad hoc committee of agency and organization personnel serves in an advisory capacity to the executive committee.

CD staff work to strengthen local grazing management programs by helping sponsor workshops, tours, and demonstration projects. Examples of these activities include the Governor's Range Tour, Montana Youth Range Camp, and Winter Grazing Seminar. The 2005 Legislature and the executive branch approved the re-establishment of funds for a rangeland resource program specialist.

A loan program was started in 1979 for the purpose of improving rangelands in Montana. To date, 236 applications have been received for loans totaling $4,633,989; 44 loans totaling $515,779 are in repayment status. A typical rangeland loan project involves drilling a well and installing underground water lines to supply stock tanks. These stock tanks are usually in areas where water is insufficient or unsuitable for livestock. The projects are sometimes combined with cross fencing and an overall grazing plan to improve the rangeland. Over 1 million acres of Montana range land have been improved using funds from this program.

Kelly Spring and spring box

Kelly Spring underground pipe

Stock watering tank along pipeline
Photos by Steve Schmitz

Grazing District Supervision and Assistance

State law provides for the creation of cooperative, nonprofit grazing districts. The law also sets up a permitting system that aids in the management of grazing lands where ownership is intermingled, in order to conserve, protect, restore, and properly utilize grass, forage, and range resources. In its administration of the Montana Grass Conservation Act (grazing district law), the Montana Grass

Conservation Commission, administratively attached to DNRC, advises, supervises, and coordinates the formation and operation of these grazing districts. Uniform plans that conform to recognized conservation practices are developed for the use of lands within the boundaries of the districts. The 27 state grazing districts represent 1,353 permittees and cover 10,501,070 acres of land.

In FY 2006, the commission was composed of these five members:

Steve Barnard, Hinsdale;
Dewayne Ozark, Glasgow;
Leo Solf, Winnett;
Dan Teigen, Teigen; and
Alvin Windy Boy, Box Elder

Stream Protection

CDB provides assistance to conservation districts in administration of the Natural Streambed and Land Preservation Act, commonly referred to as the "310 law." Under it, CDs issue permits for projects on perennially flowing streams.

CDB also works to educate the public and conservation district supervisors in the "310" permitting process. In FY 2006, CDB participated in several realtor workshops, contractor workshops, and workshops for conservation district employees and supervisors. CDB reprinted *A Guide to Stream Permitting in Montana* and distributed almost 2,000 copies to state and federal agencies, as well as conservation districts. CDB hosts a website pertaining to stream permitting forms, with links and information about stream permitting agencies.

CDs processed 1,501 Natural Streambed and Land Preservation Act "310" permit applications in FY 2006 and CDB distributed $100,000 to 50 conservation districts to help offset the cost of processing those permits. CDB has contracts with technical service providers and attorneys that CDs can call on to provide technical or legal assistance when dealing with difficult or complex projects. In FY 2006, technical assistance providers reviewed projects. Legal assistance for "310" issues was provided to the following CDs: Green Mountain, Broadwater, Lewis and Clark, Gallatin, Stillwater, and Pondera.

Yellowstone River Conservation District Council

CDB distributed $60,050 to the Custer County Conservation District to support the Yellowstone River Conservation District Council (YRCDC) operating expenses for a $5 million, six-year study. The cost-share agreement stipulates that the U.S. Army Corps of Engineers will pay for 75 percent of the study, with the remaining 25 percent coming from state and local funding and in-kind services. In addition to funding, CDB provides administrative and technical assistance to the 13 CDs that make up the YRCDC. In FY 2006, the YRCDC continued work on gathering information about the condition of the Yellowstone River. Preliminary and final reports of work under way can be found at www.dnrc.mt.gov/cardd/yellowstonerivercouncil/.

Missouri River Conservation District Council

CDB distributed $80,000 to the Missouri River Conservation District Council (MRCDC) which is made up of 16 CDs. Funding supports planning and educational efforts on the Missouri River.

Natural Resource Conservation Education Activities

This program provides grant funding and policy guidance for resource conservation education programs. In FY 2006, the CDB assisted conservation districts in sponsoring adult education, elementary and secondary school activities, and several annual events: the Envirothon at Lewistown, Montana Youth Resource Camp at Lubrecht State Forest (east of Missoula), and Natural Resources Youth Range Camp at Farmer's Union Arrowpeak Camp (40 miles east of Great Falls). Program goals are to promote discussion of resource issues and provide the knowledge and skills necessary to make decisions regarding the management, protection, and wise use of our natural resources.

Conservation Education Mini-Grant Program

Mini-grants up to $500 each are available to conservation districts working with schools on natural resource conservation education projects or for adult education. Funds have been used for a wide variety of projects, ranging from building outdoor classrooms to purchasing water quality and soil-testing equipment for use in outdoor curricula. Funds were also used for weed seminars and for a fire prevention workshop for adults. The 223 program provides funds for the mini-grant program. In FY 2006, the 19 mini-grants listed in Table 3 were funded for a total of $8,913.

Small Acreage Stewardship Education

CDB works cooperatively with conservation districts and other local groups to implement a small acreage stewardship curriculum. Major benefits of this program are:

- providing landowners with the tools to manage their property to meet their goals and address resource concerns; and
- giving local resource agencies an opportunity to contact and develop working relationships with small acreage owners.

CDB worked with a group of local weed coordinators from across the state to produce a hands-on guide to weed management for small acreage owners.

Table 3
FY 2006 Conservation Education Mini-Grants Awarded

Conservation District	Project	Amount
Broadwater	Broadwater High School - Townsend Tree Brochure	$ 500
Carbon County	4th Annual Conservation Day	500
Carbon County	Adult Education - Grazing Workshop	325
Cascade County	Ulm School - Biodiversity Project	500
Dawson	Diesel/Better Soil Seminar	500
Fergus	Weed Seminar	500
Fergus	GPS	437
Judith Basin	Hobson School - Natural Resource Day	435
Lewis and Clark	Helena High School - Science Seminar	500
Lower Mussellshell	Roundup Central Elementary - Yellowstone Expedition	500
McCone	Organic Transition Workshop	500
McCone	Adult Education - Energy Workshop	500
Missoula	Lewis and Clark School - Recycle Program	500
Pondera County	Dupuyer Outdoor Classroom	500
Pondera County	Birch Creek Colony - Weather Station	500
Sheridan County	Plentywood School - Ag in the Classroom Project	496
Stillwater	Multiple Schools - 16th Annual Conservation Day	500
Teton	Outdoor Classroom - Creeks & Critters	332
Valley County	Multiple Schools - Outdoor Classroom	388
	Total	**$ 8,913**

Grant Programs

The bureau administers five grant programs. Conservation Education Mini-Grants, Watershed Planning and Assistance Grants, and Legal and Technical Assistance Grants were discussed earlier in this section.

Conservation District Project Grants

The Conservation District Project Grants Program was established in 1981 to provide funding for CDs' lawful duties and responsibilities. The program funds a variety of CD activities such as: stream bank protection, erosion control, new conservation technology demonstrations, soil and water conservation projects, youth and adult educational activities, and conservation equipment rental programs. In FY 2006, $337,513 was granted to CDs for various projects. All projects funded in FY 2006 are listed in Table 4, and the allocation of funds is shown in Figure 4.

The 2006 Montana Envirothon winning team from Thompson Falls High School. They represented Montana in 2006 at the national competition at the University of Manitoba, Canada. Photo by Ross Campbell

Table 4
FY 2006 Conservation District Project Grants Awarded

Conservation District	Project	Amount
Beaverhead	Weed Intern	$ 1,514
Beaverhead	Kalsta Springs Creek Restoration	10,000
Big Horn	Coalbed Methane Tour	1,000
Broadwater	Education/BioControl of Weeds	2,300
Broadwater	Phase 2 Front Street Stormwater	4,500
Broadwater	Biomass Boiler for School	15,000
Carbon	Soil Water Conservation Service Annual Conference	4,975
Carbon	Concrete Diversion Blocks	9,014
Cascade County	Mobile Environmental Science Lab	6,550
Daniels	Tree/Equipment Storage/Education Building	12,000
Deer Lodge	Capacity Funding Match	4,207
Eastern Sanders	Presentation Equipment	2,496
Eastern Sanders	Sanders County Water Festival	2,587
Gallatin	2007 Noxious Weed Calendar	7,875
Gallatin	Owning Eden DVD	4,000
Garfield County	Mosby/Musselshell Salt Cedar	7,200
Glacier County	Blackfeet Weed Program	15,000
Hill County	Car Body Removal - Milk River	8,500
Judith Basin	Conservation District Outreach & Training	15,000
Lewis and Clark	Upper Ten Mile Tree Planting	2,860
Liberty	Marias River Management & Education	10,000
Lincoln	Forestry Brochure	2,500
McCone	Prairie Elk Project	3,097
Meagher County	Smith River Hydro Study	25,000
Mile High	Noxious Weeds Project	12,000
North Powell	Conservation Project Planning	10,000
Park	Upper Yellowstone	5,215
Park	2006 Watershed Symposium	10,000
Petroleum	Land Ownership Map Update	5,000
Phillips	Upgrade Kit for GPS Unit	1,105
Pondera County	Water Management Software	7,000
Powder River	Water Measuring Plan	707
Prairie	Irrigation Water Management	8,000
Richland County	Dehuller for Ethanol Production	12,500
Roosevelt	Dredge Operator & Maintenance	10,000
Ruby Valley	Ruby Valley Planning Coordinator	5,000
Sheridan County	Water Monitoring Equipment	5,600
Sweet Grass	Gauging Project	6,000
Treasure County	Icopini Filter Strip Demo	1,211
Valley County	Greenhouse	15,000
Various	CD Electronic Equipment	11,087
Various	Education Mini-Grants	8,913
Wibaux	Traux Grass Drill	11,000
Yellowstone	Swords Park Education Shelter	15,000
	Total	**$ 337,513**

Administrative Grants

In FY 2006, the CDB distributed $275,000 from the General Fund and the Coal Tax Fund as grants to 34 CDs where county mill levies were inadequate to support district operations. These funds are for administrative purposes only and are mostly granted to conservation districts in some of the smallest communities in Montana. Funding is also used for other general operating expenses. This fiscal year, CDs were able to match funds from this program with federal Farm Bill money to increase their ability to assist with implementing Farm Bill projects. Information on the Coal Severance Tax and Resource Indemnity Tax (RIT) is presented in Appendix A.

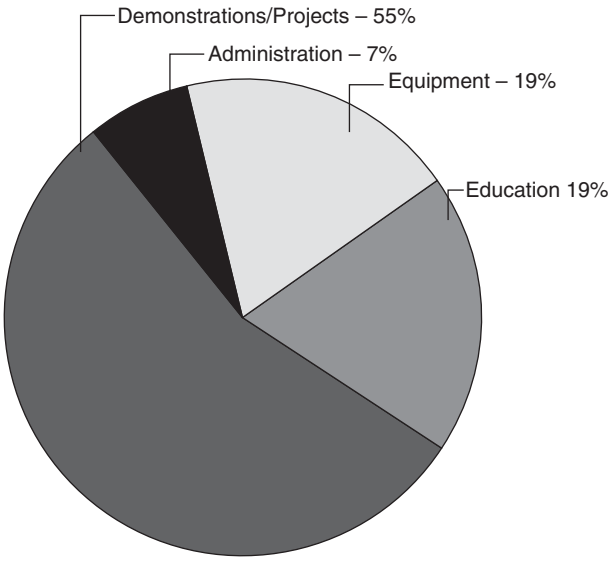
Resource Conservation and Development Areas (RC&D)

In a cooperative effort with NRCS, the bureau has taken a lead role in assisting in activities of the NRCS partnership coordinator and the Central Montana RC&D Area. The partnership coordinator is helping to develop key issues and providing assistance to RC&Ds in Montana (see Figure 5).

The Central Montana RC&D was involved in the following activities:

- sponsored monthly First Time Homebuyer classes attended by more than 100 potential homebuyers in central Montana for the Montana Housing Network, U.S. Department of Agriculture (USDA) Rural Development Program, and the Lewistown Home Program, and did one-on-one counseling;
- continued assistance for development of coal and energy resources in the region;
- continued implementation of Western States Wildland Urban Interface Project;
- provided grant-writing and administrative services to numerous agencies and jurisdictions for various emergency services, irrigation, public infrastructure, tourism, and recreation projects;
- provided staff assistance for the Central Montana Regional Water Authority for water rights preparation, grant administration, meeting(s) coordination, public information, funding requests, and records keeping;
- provided articles and advice for the quarterly newsletter sent to RC&D sponsors;
- served on the Musselshell County Tax Increment Financing District (TIFD) planning committee;

Figure 4
FY 2006 Allocation of Grant Funds for Conservation District Projects



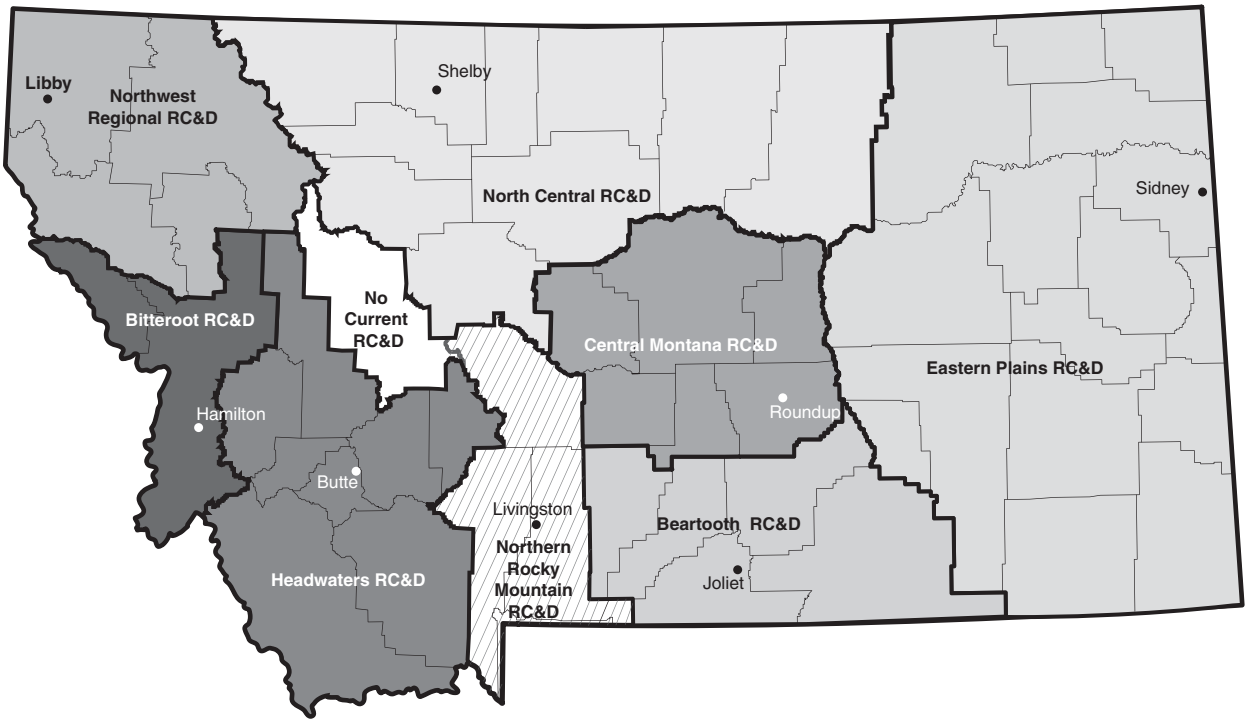
- assisted Canadian Home Manufacturing Co. with securities registration and efforts to begin a U.S. operation;
- began area plan update process for RC&D area; and
- coordinated multiple applications to the federal Clean Renewable Energy Bond Program (CREB) for area cities and counties for wind energy projects.

Montana Salinity Control Association

The Montana Salinity Control Association (MSCA) is a satellite program for conservation districts established to reclaim and prevent saline seeps and other agricultural-related water quality problems, on an individual farm and/or watershed basis. MSCA originated in 1979 in nine counties but has expanded to serve 34 counties. MSCA is partially funded from Resource Indemnity Trust (RIT) taxes (see Appendix A) administered by CARDD/DNRC and received $250,000 in FY 2006. Additional funding is generated through grants, landowner cost-share, and/or other user fees for projects. Outside funding has been received since 1983, following a four-year pilot program funded solely through DNRC grant programs.

Conservative estimates indicate that over 300,000 crop land acres in Montana were affected by salinity problems. MSCA has developed individual

Figure 5
Resource Conservation and Development Areas in Montana



reclamation plans for 1,080 sites, with 134,281 planned acres, to address 17,525 salinized acres that were no longer productive. Fourteen salinity-based watershed projects ranging from 4,000 acres to over 625,000 acres are in progress or have been completed. MSCA has provided significant technical assistance and will continue to do so in these watershed projects. With the preliminary MSCA groundwater investigations completed on 14 watersheds, additional projects can be incorporated to complement overall benefits. Each watershed project has a local advisory group that contributes funds and/or provides coordination between landowners and technical agencies.

Several irrigation-based salinity projects have been initiated by MSCA working with producers, NRCS, Bureau of Indian Affairs (BIA), and irrigation districts/companies. MSCA has developed a new brochure specific to the Bullhead Water Quality Project, one of the irrigation-based projects. MSCA is involved in the organization of individual saline and watershed projects through local conservation districts, with the CDB/DNRC staff often assisting. MSCA works with watershed groups and conservation districts to develop reasonable and science-based Total Maximum Daily Load (TMDL) plans on specific watersheds.

MSCA coordinates with state and federal agencies to utilize and adapt their technical assistance and funding programs to address nonpoint source pollution and other resource concerns. Federal programs within USDA and U.S. Environmental Protection Agency (EPA) are accessed to assist individual producers in implementing the remediation methods MSCA recommends to achieve saline reclamation.

In addition, MSCA has a strong relationship with Canadian provincial salinity specialists to share information through the Prairie Salinity Network. Similar cooperation has been established over the years through Australian research and landowner groups. MSCA participated in the first International Salinity Forum in April 2005, presenting a paper on successful dry land saline reclamation in Montana. A video documenting the MSCA field procedures and reclamation techniques for dry land salinity has been developed for NRCS training purposes.

Financial Development Bureau

The Financial Development Bureau is responsible for preparing and managing the cash flow of the division's programs. The bureau also issues loans to borrowers and manages the financial administration of Montana's Water Pollution Control State Revolving

Fund (WPCSRF) and Drinking Water State Revolving Fund (DWSRF) Loan programs. Functions of the bureau include:

- issuing general obligation bonds;
- issuing coal tax bonds;
- monitoring the operating budget of the division;
- preparing cash flows for;
  - Water Pollution Control Program;
  - Drinking Water Program;
  - Reclamation and Development Grants Program;
  - Renewable Resource Grant and Loan Program;
- monitoring financial statements of public borrowers;
- monitoring arbitrage calculations for all DNRC bonds; and
- administering loans made to public entities;

With passage of the WPCSRF and DWSRF legislation, the volume of work dictated the formation of the Financial Development Bureau. The loan portfolios alone have grown to over $342.4 million (see Table 5).

Table 5
Loan Portfolios

Type of Loan	Amount
Coal Tax Loans	$ 42,566,331
Water Pollution Control Loans	200,499,747
Drinking Water Loans	99,387,392
Total	$ 342,453,470

The disbursements to grantees can be as much as $5 million per year. Approximately 750 to 1,000 contracts are outstanding at any one time. Financial expenditures on each contract are tracked separately. Cash flows are produced monthly. For the revolving fund programs, investments must be made for repayment funds in the program.

Bond sales are planned to meet the construction schedules of the borrowers. On the average, $5 million to $10 million in bonds is issued each year. In FY 2006, more than $3 million in bonds was issued. Loan disbursements were over $41 million in FY 2006.

Water Pollution Control State Revolving Fund Loans

The WPCSRF was created by the 1989 Legislature. It is designed to combine federal grant money with state matching money to create a low-interest loan program that funds community wastewater treatment projects. DNRC and the DEQ co-administer the WPCSRF program. EPA makes a grant of federal funds to the state. The state must match 20 percent of that grant. The state's share is derived from the sale of state general obligation bonds. From 1991 to 2003, the interest rate was 4 percent for up to 20 years. In FY 2004, the interest rate dropped to 3.75 percent; this rate continued in FY 2006.

Since the program started, the State of Montana has issued $23 million in general obligation bonds, and EPA has contributed $119.1 million in grants. These state bonds and federal grants, together with $58.3 million in "recycled" (repaid) loan funds, account for the $200.4 million program level. Twelve loans totaling $13.8 million were closed in the 2006 construction season. See Table 6 for a listing of current loans. Program staff expect to make loans of $15 million in FY 2007.

The Bigfork Water & Sewer District borrowed $2.5 million to rehabilitate its wastewater treatment facility. The 20-year loan has an interest rate of 3.75 percent. Many communities are facing the same problem; their treatment plants are 30 years old and need rehabilitation.

Also in FY 2006, the town of Superior borrowed $500,000 to make wastewater system improvements. This community demonstrated hardship and received a 2.75 percent interest rate. The loan term is 20 years. This loan was combined with grants from other programs to complete the project.

The 1997 Legislature authorized the WPCSRF to start financing landfills for small communities. The first landfill loan was made to the Northern Montana Refuse District in FY 2003. The Lewis and Clark County landfill loan was completed in FY 2005, and more are expected to close in FY 2007.

Drinking Water State Revolving Fund Loans

The DWSRF provides funds for training, technical assistance, and the issuance of low-interest loans to local governmental entities to finance drinking water facilities and implemention of the Safe Drinking Water Act. State enabling legislation was passed in 1995 and

amended in 1997, after the U.S. Congress passed federal enabling legislation in August 1996. DNRC and DEQ co-administer the Drinking Water Program. The two agencies first applied for federal funds in January 1998.

The state has issued $14.8 million in general obligation bonds, EPA has obligated $72 million, and $12.5 million in "recycled" (repaid) loans have been used to fund loans for a program level of $99.3 million. Twenty-seven loans totaling over $35.1 million were closed in the 2006 construction season. See Table 7 for a listing of current loans. Program staff expect to make loans of $15 million in FY 2007.

Table 6
Water Pollution Control State Revolving Fund Loans

Completed Loans	Loan Amount	Completed Loans	Loan Amount	Completed Loans	Loan Amount
Augusta	$ 502,981	**Flathead County**		*Missoula (continued)*	
Belgrade	1,058,000	Bigfork	$ 424,000	Reserve Street Interceptor	$ 459,162
Belgrade II	1,940,000	Evergreen I	3,600,000	Reserve Street/Pineview SID	718,000
Belgrade III	1,512,000	Evergreen II	700,000	Reserve Street SID 526	2,671,000
Big Sky I	5,513,000	Forsyth	1,302,534	SID 520	2,634,000
Big Sky II	417,000	Fort Benton	1,177,000	Storm Sewer	4,577,000
Big Sky III-A	7,000,000	Froid	60,846	Wapikiya/Bellevue Clarifier I	2,465,000
Big Sky III-B	6,500,000	Gallatin Co./Hebgen Lake	4,136,000	Wapikiya/Bellevue Clarifier II	1,177,000
Big Timber	384,719	Geraldine	113,000	Wapikiya/Bellevue SID 503	324,000
Bigfork	1,000,000	Glasgow I	402,000	Wastewater Phase-I	5,000,000
Bigfork	2,486,000	Glasgow II	1,048,000	Wastewater Phase-II	3,800,000
Bigfork County WSD	162,843	Glasgow III	778,470	Wastewater Phase-III	3,688,000
Billings	4,515,000	Glasgow GAN	251,740	**Missoula County**	
Billings SID	516,000	Glendive I	236,000	Country Crest	283,000
Bozeman	400,000	Glendive II	376,000	El Mar	169,000
Butte-Silver Bow	5,307,390	Great Falls	11,295,267	Golden West	14,000
Cascade I	201,609	Great Falls Storm Sewer	4,390,491	Linda Vista I	241,000
Cascade II	1,217,987	Hardin	2,026,390	Linda Vista II	1,943,000
Choteau Refinance	109,212	Harlowton	777,073	Lolo	649,936
Choteau I	500,000	Harrison W & S	319,472	Mullan Road RSID 8474	4,498,121
Choteau II	352,595	Havre	2,160,770	Mullan Trail	31,000
Colstrip	300,000	Helena	9,320,000	Nashua	193,769
Colstrip	503,000	Hinsdale W & S	125,000	Northern Montana Refuse District	1,035,315
Columbia Falls	2,509,405	Hot Springs	158,442	Park City County WSD	692,000
Columbus	1,539,627	Kalispell I	3,913,000	Park County I	378,000
Conrad	710,510	Kalispell II	1,475,860	Park County II	83,000
Conrad Refinance	233,000	Kessler School	185,283	Red Lodge	390,000
Corvallis GAN	235,155	Kevin	47,000	Red Lodge BAN	3,876,731
Corvallis Sewer District	351,000	Kevin II	45,000	Richey	60,000
Cut Bank I	531,000	Laurel	866,000	River Rock WSD	3,100,000
Cut Bank II	800,000	Lavina	121,000	Ronan	619,905
Darby	111,000	Lewis and Clark County	3,043,858	Scobey I	500,000
Denton I	55,000	Lewistown I	500,000	Scobey II	832,000
Denton III	139,130	Lewistown II	5,400,000	Shelby	481,000
Dillon I	1,992,914	Lincoln	308,914	Shelby Refinance	453,000
DNRC-RDB I	1,500,000	Livingston I	155,000	Superior	82,000
DNRC-RDB II	1,750,000	Livingston SID	161,000	Superior II	238,000
DNRC-RDB III	2,000,000	Livingston TIF	338,000	Sweet Grass WSD I	80,000
DNRC-RDB IV	2,225,000	Manhattan I	636,000	Sweet Grass WSD II	150,000
DNRC-RDB V	2,100,000	Manhattan II	220,000	Townsend	1,071,000
DNRC-RDB VI	2,500,000	**Missoula**		Troy	1,817,281
DNRC-RDB VII	1,300,000	39th Street	1,306,984	Valier I	200,000
DNRC-RDB VIII	1,600,000	Broadway/Birch	1,997,000	Valier II	19,008
DNRC-RDB IX	1,725,000	California Street	502,000	Vaughn-Cascade WSD	248,128
Drummond	52,920	Gilbert Street SID	244,000	Victor W & S	300,000
East Helena I	91,000	Lincolnwood SID	254,000	Virginia City	366,000
East Helena II-A	1,983,000	Mullan Road	1,820,000	Virginia City	500,000
East Helena II-B	1,494,000	NW Broadway	943,000	Whitefish	200,000
Ennis I (continued)	500,000	Pineview SID 525	658,000	Whitewater WSD	120,000
Ennis II	886,000	Rattlesnake	304,000	Wolf Point	453,000
		Reserve Street	2,221,000	Worden-Ballantine WSD	260,000
				Total of all wastewater revolving fund loans	$ 200,449,747

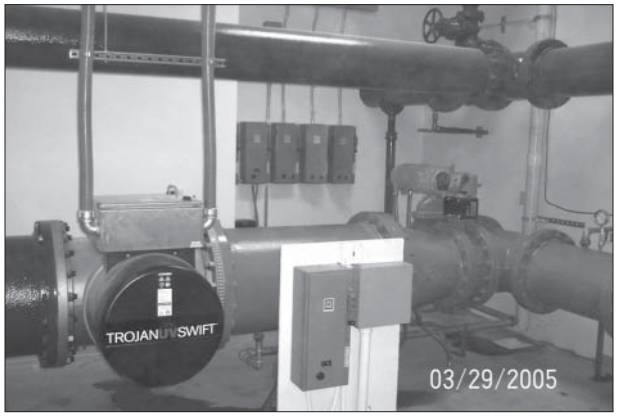
Of the 27 loans closed, one was to the city of Billings. The project loan was for $17.3 million at 3.75 percent interest. These funds were used for the rehabilitation of the city's drinking water plant.

The Power-Teton Water District borrowed $375,000 to work on its water system. Because the district met the program hardship criteria, the loan interest rate was 2.75 percent for 20 years.

These projects continue to improve the communities that participate in the loan programs. The loan interest rate also helps to make the projects affordable. In the past, no loans were made over the 4 percent interest

Table 7
Drinking Water State Revolving Fund Loans

Completed Loans	Loan Amount	Completed Loans	Loan Amount
Big Sky I	$ 534,000	Laurel I	$ 5,250,000
Big Sky II	1,966,000	Laurel II	2,541,000
Billings SID	818,000	Lewistown	3,549,000
Billings	17,300,000	Livingston I	155,000
Boulder	1,294,000	Livingston SID	326,000
Bozeman	94,000	Livingston TIF	694,000
Broadview	203,000	Livingston Revenue	700,000
Brockton	44,998	Livingston Revenue	200,000
Cascade	129,998	Lockwood WSD	1,700,000
Charlo WSD	85,000	Lockwood WSD I	500,000
Choteau	332,000	Lockwood WSD II	500,000
Colstrip I	563,000	Miles City	1,050,000
Colstrip II	829,000	Missoula County Fair	206,194
Columbia Falls I	907,000	Missoula/Sunset West	291,000
Columbia Falls II	502,000	Neihart	107,617
Conrad I	650,000	Philipsburg	238,322
Conrad II	1,543,172	Phillips Co. Green Meadows WSD	65,000
Cut Bank I	283,000	Phillips Co. Green Meadows WSD (GAN)	100,000
Cut Bank II	576,000	Plains	265,000
Dry Prairie Rural Water Authority	313,000	Plentywood	577,000
East Helena I	228,000	Plentywood I	500,000
East Helena II	3,234,000	Power-Teton WSD	400,000
Elk Meadows Ranchettes	200,000	Power-Teton WSD	375,000
Ennis I	59,701	River Rock WSD	2,100,000
Ennis II	500,000	Seeley Lake	1,340,000
Eureka	619,000	Shelby I	866,000
Fort Peck WSD	1,520,000	Shelby II	677,000
Gardiner-Park County WSD - A	161,504	Shelby III	700,000
Gardiner Park County WSD - B	330,000	Shelby	709,000
Gardiner Park County WSD - C	267,000	Sheridan	265,200
Gardiner-Park County	500,000	Sheridan BAN	95,000
Geraldine	129,000	Superior I	500,000
Glendive	1,565,000	Superior II	1,229,105
Great Falls	3,000,000	Thompson Falls	500,000
Hamilton I	220,000	Thompson Falls	897,596
Hamilton II - A	500,000	Three Forks BAN	22,570
Hamilton II - B	318,000	Three Forks	336,000
Hamilton II - C	380,000	Three Forks	268,000
Hamilton	170,000	Twin Bridges	286,515
Hardin	453,900	Upper Lower River Rd. WSD	500,000
Havre I	600,000	Upper Lower River Rd. WSD	195,000
Havre II	8,401,000	Upper Lower River Rd. WSD	243,000
Helena	1,250,000	Virginia City	66,000
Helena	3,100,000	Whitefish I	400,000
Highwood WSD	75,000	Whitefish II	5,839,000
Kalispell	761,000	Whitefish	905,000
LaCasa Grande WSD I	150,000	Wolf Point	730,000
LaCasa Grande WSD II	500,000	Worden-Ballantine WSD I	500,000
Lakeside	400,000	Worden-Ballantine WSD II	368,000
		Total of all Drinking Water Loans	**$ 99,387,392**



City of Billings rehabilitation of drinking water plant. Photo courtesy of Marc Golz, DEQ

rate. As with the WPCSRF Program, interest rates before FY 2003 were 4 percent; in FY 2004, the interest rate decreased to 3.75 percent.

Resource Development Bureau

The Resource Development Bureau (RDB) administers several grant and loan programs and provides assistance to conservation districts for the administration of water reservations and to landowners to develop new irrigation. The programs include:

- Reclamation and Development Grants Program;
- Renewable Resource Grant and Loan Program;
  - – Public Grants
  - – Project Planning Grants
  - – Emergency Grants
  - – Private Grants
  - – Private Loans
- Public Loans;
- Conservation District Water Reservations;
- Irrigation Development Program; and
- Regional Water Coordination.

FY 2006 was a successful year for these programs. More than $6.1 million in grant and loan funds was disbursed for projects throughout the state, and 729 contracts were actively administered.

Reclamation and Development Grants Program

The Reclamation and Development Grants Program (RDGP) is designed to fund projects that "indemnify the people of the state for the effects of mineral development on public resources and that meet other crucial state needs serving the public interest and the total environment of the citizens of Montana" (MCA 90-2-1102). The program was established in 1987. Any department, agency, board, commission, or other division of state government or any city, town, county, or other political subdivision or Tribal government within the state may apply for an RDGP grant. Grants of up to $300,000 are available per application. Funding for this program comes from interest income from the RIT Trust Fund and mineral taxes. In FY 2006, the RDB administered 33 reclamation and development grants totaling nearly $8 million.

The 2005 Legislature authorized 17 projects for funding, as shown in Table 8. Eleven of these projects were contracted in FY 2006, and CARDD anticipates that the six remaining projects will be contracted during summer 2006 (see Figure 6). In May 2006, RDGP received 18 grant applications requesting $4.8 million. CARDD will continue evaluating those applications and prepare recommendations for the 2007 Legislature.

Brewery Flats photo before and after cleanup. Photos courtesy of Historical Society and Ted Hahn, NRCS

The cleanup of Brewery Flats on Big Spring Creek near Lewistown has been completed. The area was formerly an industrial site and included a

Table 8
Reclamation and Development Grants Approved by the 2005 Legislature
(in order of their ranking)

Project Sponsor	Project Name	Approved Funding
Montana Board of Oil and Gas Conservation	2005 Eastern District Orphaned Well Plug & Abandonment & Site Restoration	$ 300,000
Montana Board of Oil and Gas Conservation	2005 Northern District Orphaned Well Plug & Abandonment & Site Restoration	300,000
Montana Department of Environmental Quality	Bluebird Mine Reclamation	300,000
Montana Department of Environmental Quality	Frohner Mine Reclamation	300,000
Montana Department of Environmental Quality	Buckeye Mine & Millsite Reclamation	300,000
Lewistown, City of	Reclamation of Brewery Flats on Big Spring Creek	300,000
Montana DNRC	St. Mary Studies and Design	900,000
Butte-Silver Bow Local Government	Belmont Shaft Failure & Subsidence Mitigation	300,000
Pondera County	Oil & Gas Well Plug & Abandon	100,000
Custer County Conservation District	Yellowstone River Resource Conservation Project	299,965
Teton County	Oil & Gas Well Plug & Abandon	50,000
Toole County	2005 Plugging & Abandonment Aid to Small Independent Oil Operators	150,000
Montana Department of Environmental Quality	Zortman Mine - Completion of Reclamation Alternative Z6	300,000
Butte-Silver Bow Local Government	Excelsior Reclamation	129,800
Powell County	Wetland Reclamation and Redevelopment	240,850
Montana Department of Environmental Quality	MTS Tire Recyclers Cleanup	300,000
Montana Department of Environmental Quality	Former Harlem Equity Co-op Bulk Plant	285,572
	TOTAL	**$ 4,856,187**

railroad switching yard, refinery, and garbage dump. Reclamation consisted of removing contaminated soil and revegetating the site. Spearheaded by the citizens of Lewistown, the area will now be used as a suburban park and recreation site. A multi-year effort involving local, state, and federal agencies, it was completed at a total cost of under $1 million in grants and donations.

Renewable Resource Grant and Loan Program

The Montana Legislature established what is now called the Renewable Resource Grant and Loan (RRGL) Program in 1993 by combining the Water Development Program and the Renewable Resource Development Program. The RRGL Program was established to promote development of renewable natural resources. Funding from RIT interest and mineral tax es is available to research, plan, design, construct, or rehabilitate projects that conserve, develop, manage, and/or preserve Montana's renewable resources. RRGL funds a variety of natural resource projects including groundwater studies, irrigation rehabilitation, water and soil conservation, municipal drinking water improvements, public wastewater, and forest enhancement.

Over $4 million is normally available over the biennium for grants to public entities for renewable resource projects. The 59th Legislature appropriated an additional $600,000 for grants for the 2007 biennium, for a total of $4.6 million. An additional $300,000 is available for grants to assist public entities in the planning and design of projects eligible for funding under RRGL. The loan program is funded through issuance of general obligation and coal severance tax bonds. The majority of private loans are for irrigation or water user association projects.

Public Grants

Up to $100,000 is available per grant application. The total cost of a project usually includes funds from other sources, in addition to RRGL grants and loans. In FY 2006, the bureau administered 38 renewable resource grants and $491,434 was disbursed. Table 9 lists RRGL projects in the order in which they were approved and ranked by the 2005 Montana Legislature; the allocation of funds is shown in Figure 7.

An example of a renewable resource project funded by ARR grant is the *Assessment of the Interaction between Groundwater and the Gallatin River in the Four Corners Area.* The Four Corners area is on the Gallatin River at the intersection of U.S. 191 and Montana Highway 85

in Gallatin County. Montana State University is doing the assessment in response to considerable concern by local residents, conservation groups, and agricultural interests regarding the impact of development on Gallatin River flows and groundwater levels in the area. This concern has already led to a proposal for a controlled groundwater area near the Four Corners.

The primary goal of this assessment is to collect data on the connection between the river and the groundwater flow system. The project will monitor shallow water levels in wells adjacent to the river, and place piezometers in the river, and river and irrigation ditch stage so interpretations can be made regarding groundwater/surface water interactions. This data will provide information necessary to create and later validate and modify a numerical model. The project will provide data so that developers, hydrologic consultants, conservation groups, resource managers, county elected officials, and local residents can make informed decisions regarding the impact of groundwater withdrawal on the groundwater system and the relationship between that system and the Gallatin River near Four Corners.

In FY 2006, RRGL received 81 applications for renewable resource projects requesting $8 million. These projects are currently being reviewed and ranked and will be presented to the 2007 Legislature for its approval.

Project Planning Grants

Project planning grants provide up to $10,000 on a 50 percent cost-share to governmental entities for completion of preliminary engineering, design, and feasibility analysis. Applications must explain how the project would contribute to the conservation, management, development, or preservation of renewable resources

Figure 6
Allocation of Funds for Reclamation and Development Grants Projects Approved by the 2005 Legislature

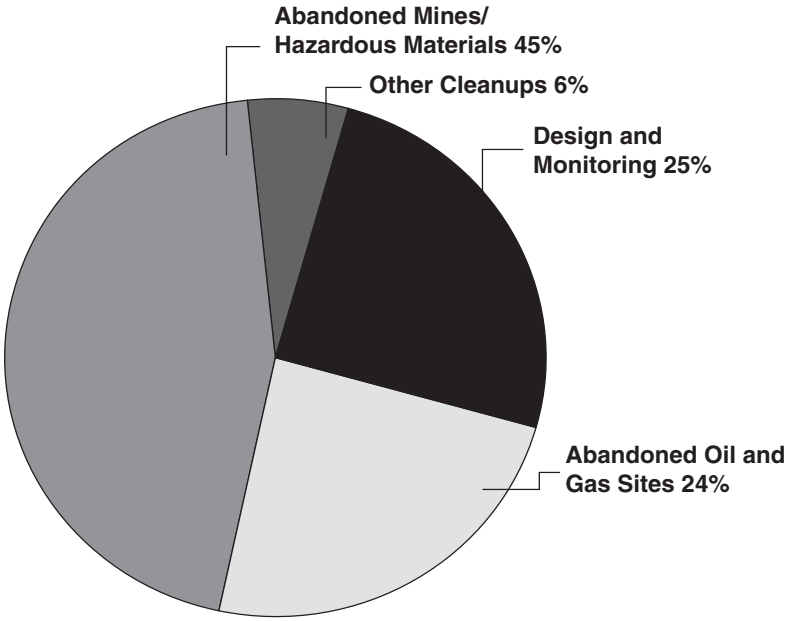


Figure 7
Allocation of Funds for Renewable Resource Grant and Loan Projects Approved by the 2005 Legislature

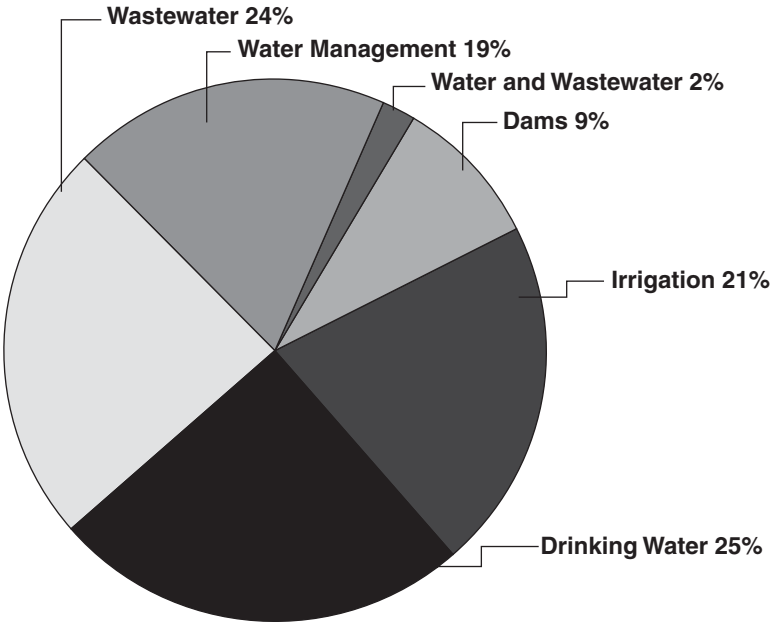


Table 9
Renewable Resource Grant and Loan Projects Approved by the 2005 Legislature
(in order of their ranking)

Project Sponsor	Project Name	Grant	Loan
Milk River Joint Board of Control	Halls Coulee Siphon Repair	$ 100,000	-
Spring Meadows Water District	Water System Improvements	100,000	-
Montana State University	Assessment of Groundwater & Surface Water in Four Corners Area	99,618	-
Beaverhead CD	Spring Creek Restoration Project - Phase 1	100,000	-
St. Ignatius, Town of	Wastewater System Improvements	100,000	-
Montana DNRC	Deadman's Basin Supply Canal Rehabilitation	100,000	$ 50,000
Jefferson Valley CD	Jefferson River Restoration	95,469	-
Carter-Chouteau Co. WSD	Carter Water System Improvements	100,000	-
Sheridan, Town of	Water System Improvements	100,000	
Lower Yellowstone Irrigation District	Lower Yellowstone Canal Control	100,000	-
Montana DNRC	Frenchman Dam Rehabilitation Study	100,000	-
Montana DNRC	Martinsdale North Dam Riprap Program	100,000	80,340
Seeley Lake Sewer District	Wastewater System Improvements	100,000	-
Upper/Lower River Road Co. WSD	Water and Wastewater System Improvements	100,000	-
Buffalo Rapids Irrigation District	Improving Irrigation Efficiency and Management through Canal Automation	88,955	-
Choteau, City of	Water System Improvements	100,000	-
Dodson, Town of	Wastewater Improvement Project	100,000	-
Gallatin Co.	Gallatin Co. Floodplain Delineation	100,000	-
Yellowstone Irrigation District	Flow Measurement Project	100,000	-
Gardiner-Park Co. WD	Water System Improvements - Phase 2	100,000	-
Liberty Co. CD	Chester Sprinkler Irrigation Project	100,000	-
Cascade, Town of	Water System Improvements	100,000	-
Ranch Co. WSD	Water System Improvements	100,000	-
Libby, City of	Cabinet Heights Wastewater System Improvements	100,000	-
Broadview, Town of	Developing a Viable Water Supply for Broadview	99,997	-
Montana DNRC	Martinsdale Outlet Canal Drop Structures	100,000	-
Roosevelt Co. CD	Fort Peck Irrigation Water Quality and Quantity Enhancement - Phase 1	99,995	-
Buffalo Rapids Irrigation District	Improving Irrigation Efficiency and Water Quality	100,000	-
Paradise Valley ID	Turnout Replacement	100,000	-
Manhattan, Town of	Wastewater Treatment System Improvements - Phase 2	100,000	-
Woods Bay-Homesites Co. WSD	Water System Improvements	100,000	
Custer Area-Yellowstone Co. WSD	Wastewater System Improvements	100,000	-
Fort Belknap Irrigation District	Sugar Factory Lateral - Phase 2	100,000	-
Laurel, City of	Wastewater System Improvements	100,000	-
Yellowstone CD	Canyon Creek Stream Restoration, Education, & Weed Control	100,000	-
Valier, Town of	Wastewater System Improvements	100,000	-
Fairfield, Town of	Wastewater System Improvements	100,000	-
Glasgow Irrigation District	Vandalia Dam Improvements - Phase 3: Struts and Walkways	100,000	-
Ennis, Town of	Wastewater System Improvements - Phase 2	100,000	-
Big Horn CD	Assessment of Alluvial Aquifers of Northern Big Horn Co.	100,000	-
Savage Irrigation District	Savage Irrigation Rehabilitation Plan	62,814	-
Butte-Silver Bow	Big Hole River Transmission Line Replacement	100,000	-
Whitefish, City of	Water System Improvements	100,000	-
Circle, Town of	Wastewater System Improvements	100,000	-
Black Eagle WSD	Water System Improvements	50,000	-
Lewis and Clark CD	Florence Canal Rehabilitation	100,000	-
Livingston, City of	Livingston Flood Damage Reduction Feasibility Study	100,000	-
Funding of projects below this point will depend on the availability of revenue.			
Missoula Co.	Grant Creek Restoration and Flood Mitigation	100,000	-
Liberty Co. CD	Marias Baseline Development	100,000	-
Hammond Irrigation District	Porcupine Creek Siphon Rehabilitation	38,200	-
Bearcreek, Town of	Water System Improvements	100,000	-
Ryegate, Town of	Wastewater System Improvements	100,000	-
Sun Prairie Village Co. WSD	Water System Improvements	100,000	-
Butte-Silver Bow	Water Master Plan	100,000	-
Montana DNRC	Increasing Montana Water Management Capacity	99,714	-
Milk River Joint Board of Control	Lake Sherburne Dam Outlet Works Rehabilitation	100,000	-
Bigfork Co. WSD	Wastewater System Improvements	100,000	-
Ruby Valley CD	Ruby Groundwater Management Plan - Phase 1	33,694	-
Cartersville Irrigation District	Sand Creek Siphon Rehabilitation	100,000	30,843
	Totals	**$ 5,668,456**	**$ 161,183**

in Montana. The grants are given on an "open-cycle" basis. In FY 2006, 33 planning grants were contracted for a total of $300,000. Eight planning grant contracts from previous years were also monitored.

Emergency Grants

The 2005 Legislature included $150,000 in its House Bill 6 appropriation for emergency grants for the 2007 biennium. DNRC may qualify a project as an emergency if it is one that, if delayed until legislative approval can be obtained, will cause substantial damage or legal liability to the entity seeking assistance. The emergency is typically associated with an unanticipated system failure and is not the result of normally expected use and deterioration. Emergencies do not include studies or planning efforts. Examples of emergencies include dam failures, failure of irrigation structures during irrigation season, and failed wastewater-pumping stations. All other reasonable sources of funding must be identified and exhausted before emergency funding is recommended.

In FY 2006, DNRC received inquiries for one qualifying emergency grant (under evaluation). The town of Richey is facing emergency repair to its water storage reservoir, which is leaking at the approximate rate of one cubic foot per second. Because water for the Richey water system is pumped from two 1,500-foot wells and treated – an expensive process – the problem is being mitigated immediately. The estimated cost to drain, underpin, and seal the concrete reservoir is $115,000.

Private Grants

Financial assistance is also available to any individual, association, partnership, or corporation (both for-profit and nonprofit). The legislature allocated $100,000 per biennium for private grants. By law, grant funding for a single project may not exceed 25 percent of the total estimated cost. Half of the funds are targeted to assist small, privately owned water systems. Owners of small systems have difficulty in meeting Safe Drinking Water Act regulations, but must meet the same requirements that municipal water systems face. DNRC has identified 105 private water systems for potential funding. The average size of a grant is $2,538; the grant must be matched on a 3-to-1 basis. In FY 2006, DNRC awarded five grants totaling $2,670.

Private Loans

Loans for private water development projects are available from DNRC. Loans to individual private entities may not exceed the lesser of $400,000 or 80 percent of the fair market value of the security given for the project. Private loans to individuals must be secured with real property. Loans up to $3 million are available for such organizations as water user associations and ditch companies. These loans are secured by the revenue produced by the system. Irrigation system improvements – for example, conversion from flood irrigation to sprinkler irrigation – are the most common type of project funded through private loans.

To finance loans, the law provided authority to issue general obligation renewable resource bonds up to a total outstanding balance of $30 million. The current outstanding balance on the loans is $15.8 million. In FY 2006, 376 loans were being administered.

In FY 2006, the private loan program sold $1 million in taxable general obligation bonds. The interest rate on these bonds is 3.75 percent, which is 2 to 3 percent below traditional market rates.Adding a 0.3 percent charge for a loan loss reserve, DNRC offers potential borrowers a very low interest rate of 4.05 percent for irrigation improvement projects. All loans must qualify as "nonpoint pollution control projects." Because the program primarily funds irrigation improvement projects, all new loan requests have qualified for these low-interest funds.

Public Loans

This program makes loans to governmental entities for renewable resource projects. The program was

Selling wheelines (foreground) after converting to center pivot (background) irrigation method. Photo by Larry Bloxsom

started in 1981 by the Montana Legislature, which granted $250 million in coal tax bonding authority. In FY 2006, 53 public loans with a balance of approximately $42.5 million were outstanding. The public loans are listed in Table 10. The Legislature has approved $4.7 million in loans for which funds have not yet been drawn.

The Renewable Resource Public Loan Program has been evolving into a new role over the last decade. Before 1990, the public loan program was one of the few low-cost sources of public loan funds available to municipalities. Many of the early loans in the public loan program were for municipal water and wastewater projects. However, since creation of the Water Pollution Control and Drinking Water State Revolving Fund (SRF) Loan programs, municipalities are borrowing funds at 3.75 percent from the SRF programs. This has freed capacity in the public loan program for other types of projects. In fact, the number of irrigation loans that the program has funded has steadily increased, which reflects the need for repair of aging ditches, diversions, and other irrigation infrastructure, as well as lack of any federal assistance for these projects. The public loan program also provides a safety net for municipal projects, such as solid waste projects, that may not qualify for SRF funding.

Conservation District Water Reservations

In 1978, the Board of Natural Resources and Conservation granted water reservations to 14 conservation districts (CDs) in the Yellowstone River Basin. Nine CDs were granted reservations in the Upper Missouri River Basin in 1992, and 11 CDs were given reservations in the Lower and Little Missouri River basins in 1994. Some CDs have reservations in more than one basin. The Resource Development Bureau provides legal, technical, and programmatic assistance to conservation districts in the administration of these water reservations.

CDs continue to make major progress toward developing their water reservations. Work is ongoing to obtain low-cost electric power for irrigation

Table 10
Public Loans

Applicant	Balance Due	Applicant	Balance Due
Antelope Co. WSD	$ 46,959	Forsyth, City of	$ 186,180
Beaverhead Co./Red Rock WSD	1,590,600	Fort Benton, City of	359,865
Bitterroot Irrigation District	515,038	Gardiner-Park Co. WD	86,432
Bozeman, City of	131,893	Glasgow, City of	277,813
Bozeman, City of	173,518	Harlem, City of	67,450
Broadwater Power Project	17,245,000	Huntley Irrigation District 1	839,004
Buffalo Rapids Irrigation District	779,138	Huntley Irrigation District 2	201,262
Cut Bank – N. Glacier WSD	28,090	Huntley Irrigation District 3	73,658
Daly Ditches Irrigation District	305,483	Huntley Irrigation District 4	212,839
Denton, Town of	24,810	Hysham, Town of	134,707
DNRC/State Water Projects Bureau	-	Lower Willow Creek Irrigation District	98,091
Bair Dam	818,244	Malta Irrigation District	1,956,697
Broadwater-Missouri Pipespan	287,579	Miles City, City of	478,657
Deadman's Basin (Barber)	303,938	Mill Creek WSD	506,102
Deadman's Basin-Canal	55,000	Park Co. RSID #7	14,010
East Fork Rock Creek Dam	550,000	Pondera Co. Canal & Reservoir	141,594
Nevada Creek Dam Rehab	434,905	Pondera Co. Canal & Reservoir	111,554
North Fork of the Smith River	412,188	Sage Creek Co. Water District	346,611
Petrolia Dam	246,663	Sanders Co. Water District at Noxon	46,317
Shields Canal Water Users	2,742	Sun Prairie SD	179,288
Dutton, Town of	63,556	Sun Prairie WSD	102,901
Dutton, Town of	11,370	Tin Cup WD	186,037
East Bench Irrigation District	361,846	Tongue River	9,271,795
East Helena, City of	57,629	West Yellowstone, City of	44,260
Ekalaka, Town of	8,952	West Yellowstone, City of	121,430
Fairview, City of	83,280	White Sulphur Springs, City of	36,241
Flathead Co.	1,850,288	Wibaux, Town of	96,827
		TOTAL:	**$ 42,566,331**

New spillway construction on Nevada Creek Dam in Powell County. Photo courtesy of Bob Fischer, DNRC

through the Pick-Sloan Program. The CDs continue to actively to inform the public of the availability of reserved water through newsletters, newspaper articles, county/agricultural fair booths, and direct mailings to potential water users.

Irrigation Development Program

The Irrigation Development Program was originally developed and originally funded by the 1999 Legislature. One of the key goals of this program is to develop new irrigation projects that grow high-value crops such as potatoes and sugar beets. Almost half of the time spent in this program involves assistance to existing projects.

In FY 2006, program staff worked with groups throughout Montana to pursue development of new projects and find ways to increase the value of existing irrigation. The DNRC irrigation development officer assisted and advised the Fort Peck Tribes on development of the North Sprole and Fort Kipp irrigation projects.

Loss of Bureau of Reclamation funding for applications of polyacrylamide canal sealant brought attention to the need to assess and document the benefits of this product. After meetings with several irrigation districts and companies, program staff initiated a study of canal sealant on the Pondera County Canal and Reservoir (PCCR) system. The Montana Salinity Control Association assisted with documentation and monitoring of leakage associated with the sealant applied to the PCCR.

Assistance has been given to the Fort Peck Water Users for professional services to prepare designs and budgets to develop water re-use plans. Funding has also been given to the Chester Irrigation Project to provide technical assistance for this proposed project. Work has begun to develop a four-state irrigation development summit in Billings for fall 2006. The Lower Musselshell Water Users Association conducted meetings to discuss possible study of downstream storage reservoirs. New storage has the potential to add thousands of acre-feet to the lower basin for irrigation.

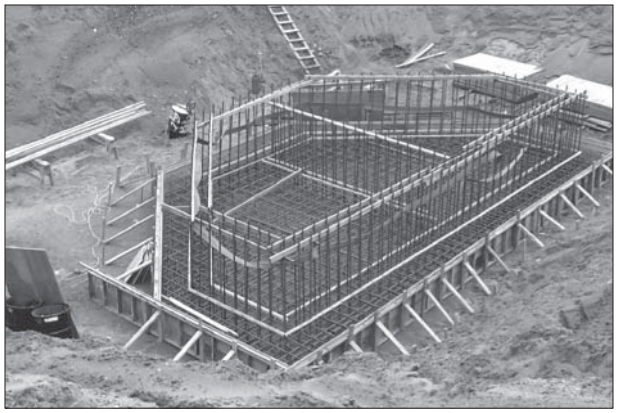
As part of the Irrigation Development Program, grants of up to $15,000 per irrigation project are available through CARDD. Both private and public applications are considered. Projects are eligible if they lead toward development of new irrigation or increase the value of agriculture for existing irrigated lands. Project examples include installing test wells for irrigation, conducting feasibility studies on irrigation system improvements or new irrigation projects, and providing information to the public, such as agriculture tours to educate producers on new technology. Grants and contracts awarded in FY 2006 totaled $150,000.

Regional Water Coordination

Fort Peck - Dry Prairie Rural Water System

This project was authorized by the U.S. Congress in October 2000 (Public Law 106-382). The U.S. Bureau of Reclamation (BOR) began releasing funds in September 2003. An innovative funding package combined federal, state, and local dollars, with significant assistance from CARDD. Dry Prairie Rural Water Authority (awarded contracts for construction of a 23-mile leg of water main from Culbertson to Medicine Lake. Water service began to the communities in October 2004. Total cost for this portion of the project was approximately $4.4 million, including a $313,000 SRF loan and an $826,000 grant from the Treasure State Endowment Program (TSEP) Regional Water Fund.

DPRWA's next phase of construction work, known as the "A" branch lines, completed the planning process. A pipeline construction firm was awarded the $5.5 million contract. Work on the branch lines into areas adjoining the Culbertson-Medicine Lake line has begun. The contract includes 190 miles of pipeline ranging in size from 1.5 to 8 inches in diameter. When completed in November 2006, the new lines will supply the town of Bainville and 188 rural households in Sheridan and Roosevelt counties with treated drinking water. Included in this portion of the project are two new 500,000-gallon finished water storage tanks north of Culbertson, for which a separate contract was awarded for just under $888,000.



Part of Fort Peck water intake structure. Photo courtesy Marc Golz, DEQ

Microfiltration System Pilot Testing at Tiber Reservoir – water intake pipe to testing facility equipment. Photo courtesy HKM Engineering, Inc.

The Tribes continued working on development of the water treatment plant (WTP) site. Given the uncertainty of the construction industry in the wake of Hurricanes Katrina and Rita, the lone bid came in substantially over the engineer's estimate, and was rejected. As of the end of FY 2006, the WTP construction plan had been split into several schedules, and two of those were out for bid.

Rocky Boy's - North Central Montana Regional Water System North

Authorization was signed into law in 2002 (Public Law 107-331, Title IX). The total project cost was set at approximately $230 million at the time of authorization. Completed activities include:

- a 2003 BOR engineering study for the entire project;
- completion of a water conservation plan;
- public hearings in summer 2003;
- pilot testing of water treatment plant technology at Lake Elwell in 2004;
- completion of the environmental assessment and issuing of a "Finding of No Significant Impact";
- drafting and completion of the final engineering report;
- tri-partite agreement by the Bureau of Indian Affairs, the Chippewa-Cree Tribe, and the North Central Montana Regional Water Authority for operation and maintenance of the core system;
- planning, design, and review of the raw water intake facility in Lake Elwell; and
- public hearings and other actions related to the commitment to membership in the authority by various communities and county water districts.

The project sponsors requested $17 million for federal FY 2006, and received $7 million. Most of those funds are to be used for project construction, including micro-tunneling into Lake Elwell from a site adjacent to Tiber Dam for the water intake structure and initial work on the design and site preparations for the water treatment plant. Ground-breaking ceremonies for the intake occured in August 2006 at Tiber Dam.

Central Montana Regional Water System

(formerly known as the Musselshell Valley Regional Municipal Water Project)

This system will reach from southwest of Hobson east and south through Judith Gap, then east to Melstone via Roundup, with branch mains south to Harlowton, Ryegate, and Lavina-Broadview. The communities of Moore, Garneill, Shawmut, and Musselshell may also be served. One preliminary estimate of costs was $34 million, based on the premise of untreated groundwater flowing largely by gravity in significant portions of the distribution system. The State Coal Board granted a total of $500,000 for exploratory drilling, water testing, and engineering studies. Test well drilling north of Utica on a tract of State School Trust Land was completed to a depth of 3,700 feet early in 2004, and an engineering firm was selected for related services. The well was tested for water quality and quantity in November 2005. The authority has applied to DNRC for a water right on the Utica well, and is prepareing requests to state and federal agencies for funds for construction of additional wells.

Dry-Redwater Regional Water Authority

This project was established due to interest from local officials and residents of Garfield, McCone, and portions of Dawson and Richland counties. A steering committee

was formed and it selected a qualified engineering firm. Grant requests for $90,000 were obtained for completion of all phases of the feasibility report, as well as a PER (Preliminary Engineering Report). Regional Water Authority status was conferred late in the summer of 2005, and a board was installed by the end of the year. Public meetings were conducted throughout the area early in calendar year 2006. As of the end of FY 2006, the final version of the feasibility study for the system was close to completion. Total estimated construction cost of the system, utilizing surface water treatment technology (Fort Peck Lake is the anticipated source), is currently at $79 million.

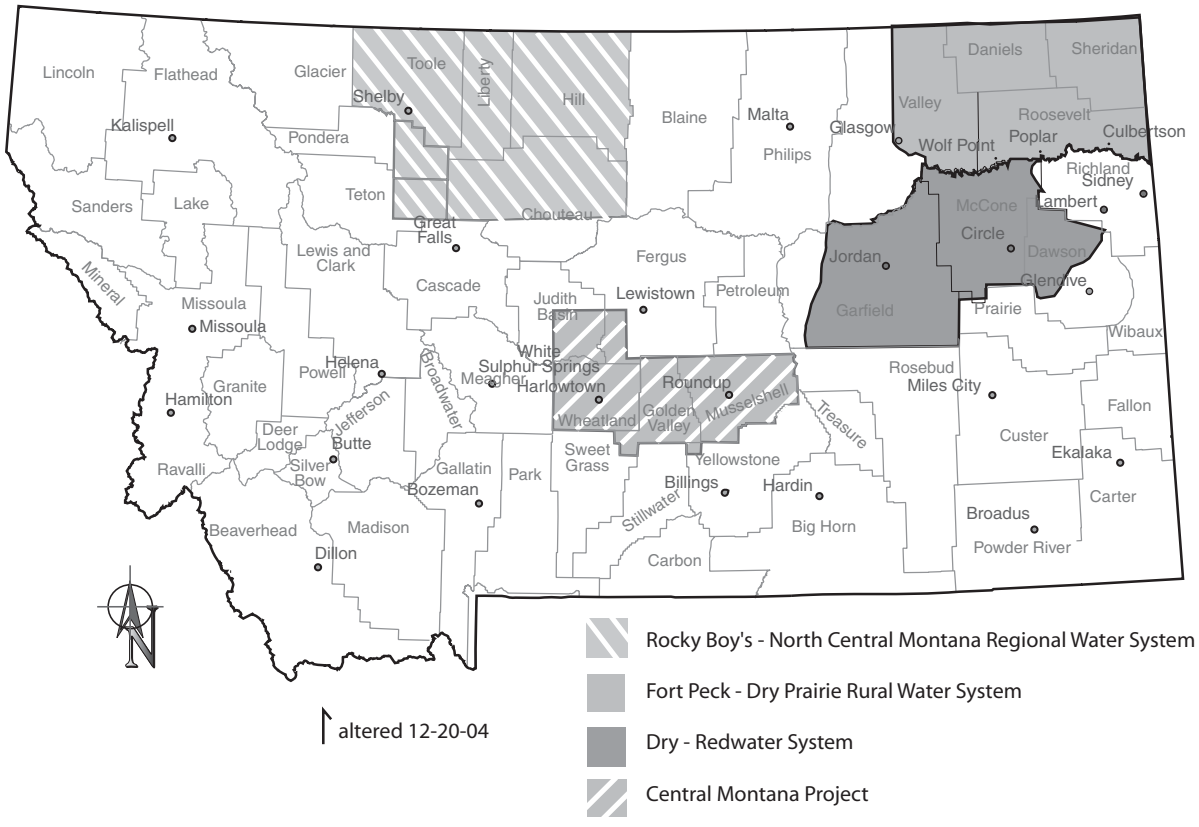
Initial Phase of the Utica Test Well Drilling Project. Photos courtesy Monty Sealey, DNRC.

St. Mary Rehabilitation Project

In 1903, construction of the Milk River Project was authorized as one of the first five projects built by the newly created Reclamation Service, now the U.S. Bureau of Reclamation (BOR), under the Reclamation Act of 1902. The St. Mary Diversion Facilities divert water from the St. Mary River Basin on the Blackfeet Reservation near Glacier National Park to the North Fork of the Milk River via a 90-year-old, 29-mile-long facility. Separate components include a storage reservoir on Swiftcurrent Creek, a diversion dam on the St. Mary River, canal headgates, two sets of inverted siphons, check and wasteway structures, five hydraulic drops, and approximately 29 miles of canal. The system is owned by the U.S. Government and operated and maintained by BOR.

After 88 years of service, many components of the diversion system have exceeded their design life and are in critical need of repair or replacement. Sudden failure of the

Figure 8 Regional Water System Service Areas



St. Mary Diversion Facilities will result in environmental damage on the Blackfeet Reservation, economically devastate communities and businesses along the Hi-Line, and likely have economic repercussions across the state. Based on an appraisal level study (updated and revised in 2005), BOR estimates construction costs for rehabilitating the St. Mary Diversion Facilities at between $120 million and $127 million depending on canal capacity (850 cfs to 1,000 cfs).

On average, the St. Mary Diversion Facilities divert approximately 160,000 acre-feet of water per year from the St. Mary River Basin to the Milk River Basin where it supports irrigated agriculture, communities and businesses, a national wildlife refuge, fish and wildlife, and recreational opportunities in north central Montana's Hi-Line region. The system provides water to irrigate over 110,000 acres through contracts with the BOR. These farms produce approximately 8.3 percent of all cattle/calves produced in the state, approximately 7.8 percent of all irrigated hay, and 8.2 percent of all irrigated alfalfa. In a normal irrigation season (May through September), approximately 70 percent of the Milk River flow near Havre originates from the St. Mary River Basin. In dry years, the imported water may constitute up to 90 percent of the Milk River flows past Havre. During the drought of 2001, 95 percent of available water in the Milk River originated in the St. Mary River Basin. Without this imported water, the Milk River would run dry an average of six of every 10 years.

Although the St. Mary Diversion Facilities were initially built to provide supplemental water for irrigated agriculture, the benefits extend far beyond this original intent. Water from the St. Mary River provides municipal water to approximately 14,000 people in the communities of Havre, Chinook, and Harlem. In addition, the Hill County Water District, a rural water system, has BOR-contracted water rights and therefore depends on water from the St. Mary Diversion.

Bowdoin National Wildlife Refuge, seven miles east of Malta, gets water from St. Mary. This refuge provides food and habitat for an estimated 100,000 waterfowl each spring and fall. Numerous endangered, threatened, and species proposed for listing, including the piping plover (threatened) and pallid sturgeon (endangered), benefit from supplemental Milk River flows. Fresno and Nelson reservoirs were created as storage components within the Milk River Project. Today these reservoirs support tourism and public recreation.

The DNRC continues to work with the Lt . Governor and St. Mary Rehabilitation Working Group to find a workable solution for rehabilitating the aging St. Mary Diversion Facilities. Through the combined efforts of the working group, DNRC, and Montana's congressional delegation, $9 million in federal funds was secured for the project in FY 2006. These funds will be used to construct a new county road bridge over the St. Mary River, address environmental concerns on the Blackfeet Reservation associated with operation of the diversion system, and continue with required engineering studies. State and local funds committed to the project include $900,000 in Resource Development Grants Program funds, $500,000 in Treasure State Endowment Program funds, over $372,000 of in-kind contributions from DNRC, and over $126,000 of in-kind contributions from working group members. The Montana Legislature also committed $10 million in bonding authority as a match to federal funds once construction is initiated.

The working group was also successful in its efforts to have the "St. Mary Diversion and Conveyance Works and Milk River Project Act of 2006" introduced in both the U.S. House and Senate. As introduced, the legislation authorizes the BOR to rehabilitate the St. Mary Diversion Facility and address associated issues of the Blackfeet and Fort Belknap Tribes and the Milk River Basin.

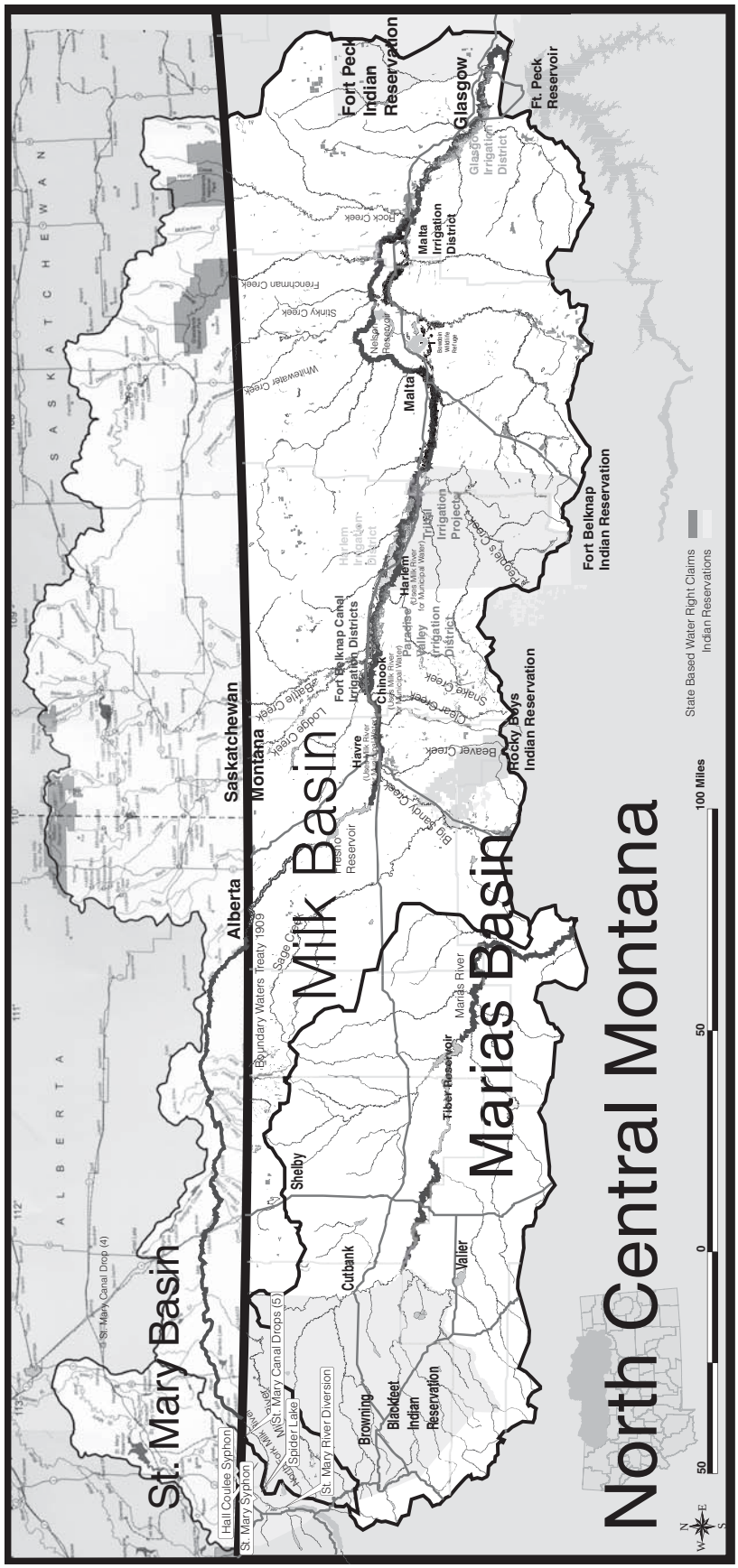
After a competitive selection process, DNRC contracted with an engineering firm to provide services to the state and working group. Work completed includes installation of six slope inclinometers to monitor movement of the side slopes at the St. Mary River Siphon crossing, initiation of a topographic survey along the canal route, and completion of a PER, which developed appraisal-level cost estimates for several rehabilitation alternatives. Upcoming work will include installation of four slope inclinometers to monitor the side slopes at the Halls Coulee Siphon crossing. DNRC has also entered into a memorandum of agreement with the Blackfeet Tribe to study the feasibility of generating hydropower at the concrete drop structures along the canal route.

The Milk River Basin is shown in Figure 9.

Websites featured in this section:

www.dnrc.mt.gov/cardd/
www.dnrc.mt.gov/cardd/yellowstonerivercouncil/

Figure 9
Milk River Basin – St. Mary Rehabilitation Project



Forestry Division

Forestry Division

Ensure sustainability of Montana forests, rural lands, and communities through cooperative wildland fire protection, sound forest management practices, and by promoting a viable forest-based economy.

The Forestry Division, headquartered in Missoula, is responsible for planning and implementing forestry programs administered by the Fire and Aviation Management and Forestry Assistance bureaus through a network of field offices across the state. The division has the following goals:

- protecting the state's natural resources from wildfire, insect pests, and disease;
- sustaining Montana's forest and agricultural resources;
- promoting and supporting conservation practices on all lands in Montana;
- enforcing the state's forest practices laws in a manner both fair and consistent to all parties, and that meets the intent of the legislation; and
- encouraging the maintenance, planting, and management of trees and shrubs in Montana communities.

The state nursery sells many species of trees for shelterbelts, windbreaks, wildlife habitat, stream reclamation and restoration projects, and reforestation of state and private lands. Photo by John Justin

For more information, please see our website at www.dnrc.mt.gov/forestry/.

Forest Policy

The Forest Policy Program provides a consistent and forward-looking emphasis to legislative and policy-related duties of the division. The goals of this program are to: (1) ensure the state's interests are represented in management of private, state, and federal forestlands, (2) promote the sustainability of Montana's forests and the human and natural resources derived from them, and (3) provide informed decision-making support on forestry-related issues through accurate, timely, and objective analysis.

These goals are accomplished through program objectives, including:

- establishing effective working relationships with internal Department of Natural Resources and Conservation (DNRC) staff, state legislators, congressional staff, Governor's office staff, key interest groups, and resource management leaders;
- providing analysis, communication, and technical assistance on forestry-related policies, regulations, and legislation at national, regional, and state levels;
- providing support to the Forestry Division administrator on state legislative affairs; and
- providing agencywide representation on federal forest management issues.

Fire and Aviation Management Bureau

DNRC works with local and federal government to ensure wildfire protection on state and private land within Montana.

The Fire and Aviation Management Bureau (F&AMB) works to *"Provide resources, leadership, and coordination to Montana's wildfire services, accomplished through wildfire prevention, training, preparedness, and safe, aggressive suppression actions to protect lives, property, and natural resources."*

Protection

The DNRC F&AMB provides wildland fire leadership to Montana to protect the natural resources of the state by preventing and suppressing wildland fires. All wildlands in Montana have some form of fire protection. A total of 50,477,293 acres of state-owned and private lands is protected (see Table 11). The F&AMB staffs 65 engine and water tender companies and seven helicopters to provide direct protection to 5.2 million acres. The program also loans over 350 engines and water tenders to local fire agencies and provides large fire assistance to local government.

Fire Prevention and the National Fire Plan

Education and Outreach

In Fiscal Year (FY) 2006, the Fire Prevention Program conducted its yearly *Keep Montana Green* poster contest for Montana students. In addition, Firewise Workshops were conducted in Helena, Polson, and Miles City, providing participants with critical information on subdivision design and considerations for making communities Firewise. Cathedral Mountain Ranch in Stillwater County was named a new Firewise Community. Program staff also conducted Fire Restrictions and Closures Training sessions that included an overview of the fire restrictions process. F&AMB also worked with industry partners toward a better understanding of allowable activities under Stage 2 fire restrictions.

Table 11
Fire Protection by DNRC in FY 2006

Category	State and Private Lands (Acres)	Public Lands (Acres)	Total Acres
DNRC Direct Protection			**5,152,142**
State and Private Lands	3,481,711		
BLM Lands		694,665	
USFS Lands		950,322	
Tribal/BIA Lands		4,551	
BOR Lands		2,776	
FWS Lands		18,117	
State/County Cooperative Fire Protection[1]	45,309,480	0	**45,309,480**
Federal Direct Protection[2]			**1,686,102**
Protected by BIA (Tribal)	139,256		
Protected by BLM	68,542		
Protected by USFS	1,441,434		
Protected by FWS	36,870		
TOTALS	**50,477,293**	**1,670,431**	**52,147,724**

[1]Includes all 56 counties in Montana [2]Subcontracted to federal agencies

Interagency Cooperation and Stakeholder Participation

DNRC conducted a "Montana Communities and Wildfire Conference" in Helena in FY 2006 where community representatives, planners, agencies, contractors, homeowners, public officials, and volunteers discussed Montana's progress in meeting the goals of the National Fire Plan. A key outcome of this conference was the creation of FireSafe Montana, an advisory council whose primary mission is to champion the cause of protecting communities from wildfires. The group has already met several times, developed a mission and charter, and made plans for subsequent statewide events.

Community Wildfire Protection Plans (CWPPs)

DNRC continues to assist local governments in developing CWPPs as directed in the Healthy Forest Restoration Act. To date, 49 of Montana's 56 counties (87%) participate in the CWPP process. A majority (35) of them have completed their plans (see Figure 10).

Preparing a CWPP encourages collaboration and cooperation among interested stakeholders. It requires a risk assessment and prioritization of projects to mitigate those risks, regardless of land ownership. It encourages Firewise principles, providing homeowners with information on creating defensible space to reduce potential structure ignitability. By prioritizing projects, the program ensures that available funding goes to projects with the greatest needs within a county or community. Landowners receive direction on management activities that they can integrate into their own long-term plans. The process requires extensive public outreach, and the plan must be approved by local, county, and state governments and land management agencies.

Fuels Mitigation

A cornerstone of the DNRC National Fire Plan Program is delivery of fuels mitigation cost-share funding to communities and individual landowners statewide. In FY 2006, DNRC received $950,000 in cost-share assistance for fuels mitigation projects

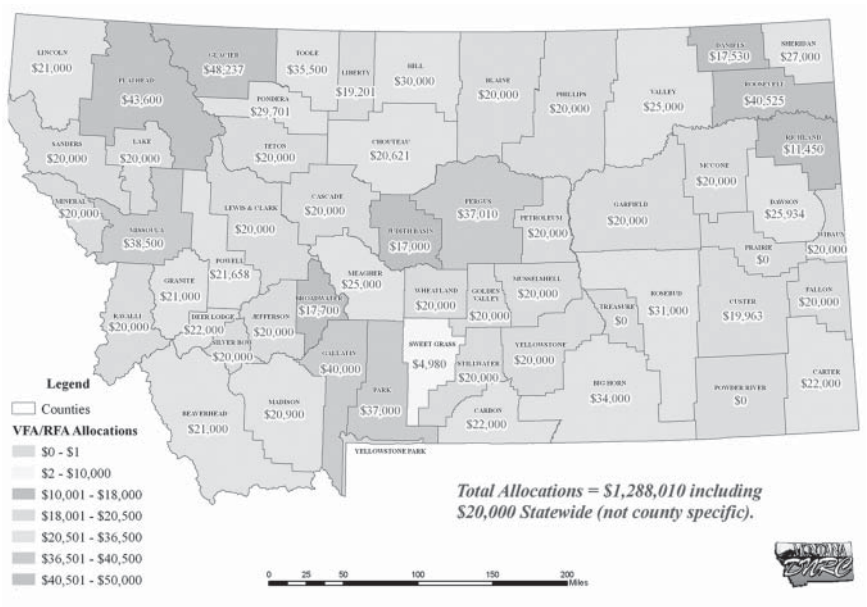
in Lewis and Clark, Mineral, Missoula, Ravalli, Jefferson, and Carter counties through the Western States Fire Managers Wildland Urban Interface Grant Programs and the Community Protection Fuels Mitigation Grant Program. Both programs are funded by the USDA Forest Service (USFS) and delivered by DNRC and its partners.

Volunteer and Rural Fire Assistance (VFA/RFA)

The Volunteer and Rural Fire Assistance Program provides grants to county fire agencies for equipment, training, and fire prevention materials. The program is funded by the USFS and U.S. Department of the Interior agencies (U.S. Fish and Wildlife Service [FWS], Bureau of Land Management [BLM], Bureau of Indian Affairs [BIA], and the National Park Service [NPS]). Local fire organizations submit requests to their respective county leaders, who prioritize proposals and submit a packet of requests to DNRC. Projects are funded based on recommendations from an interagency selection committee with members from the funding agencies. F&AMB staff administer agreements for approved projects in Montana. Figure 11 shows the VFA/RFA funding distribution by county.

Figure 10
Community Wildfire Protection Progress Map

Figure 11
Montana VFA/RFA Allocations per County for FY 2006



Fire Suppression

Direct Protection

DNRC provides direct protection to 5,152,142 acres. This includes 3,481,711 acres of state and private lands and 1.67 million acres of public lands (see Table 11).

State/County Cooperative Fire Protection

Under the State/County Cooperative Fire Protection Program, the department assists with protection of 45,309,480 acres of state and private lands. A network of 400 fire departments provides initial response to wildfires in 56 counties. DNRC assists on fires that escape the counties' capabilities and provides training, prevention materials, and equipment.

Contracted Federal Protection

DNRC subcontracts fire protection for 1,686,102 acres of state and private lands to federal agencies.

Figure 12
Number of Fires on State-Protected Land

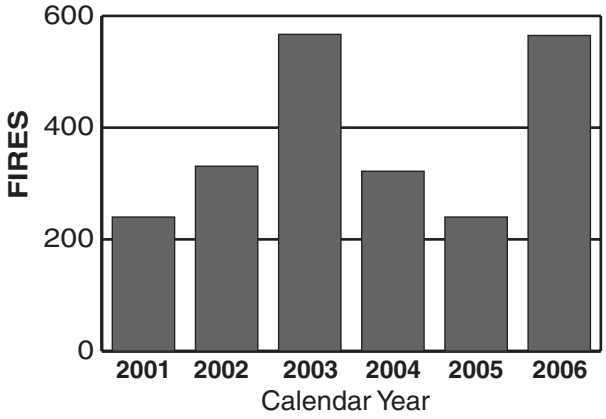
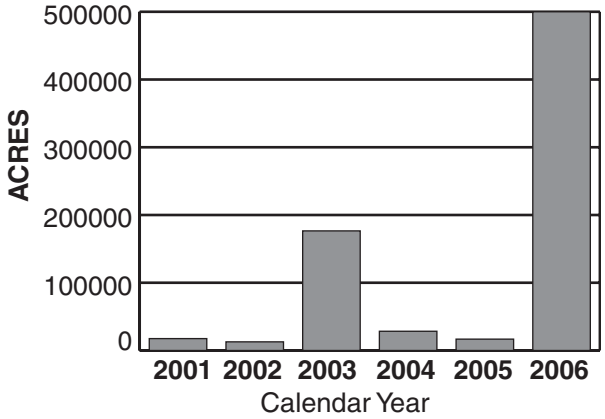


Figure 13
Acres Burned on State-Protected Land



Lightning is the single most frequent wildfire cause, starting 47 percent of the fires (see Figure 14). DNRC contained an average of 97 percent of the direct protection fires to less than 10 acres in size in 2006. Figures 12 and 13 are based on direct protection and county assist fires.

F&AMB also provides support and assistance to federal fire agencies and other states when appropriate.

The number of fires during the 2005 fire season was below the five-year average; 240 fires burned a total of 17,547 acres (see Figures 12 and 13). The average number of fires over the last five years is 359 per year, and the average number of acres burned over each of the last five years is 50,403. The annual acreage burned varied from 12,766 acres in 2002 to 176,550 acres in 2003.

Fire Training

The F&AMB provides training in fire prevention, detection, investigation, suppression, aviation, communications, safety, prescribed fire, participation on incident management teams, and wildland fire training instruction. In addition, F&AMB staff provide training opportunities for DNRC and local government overhead and management personnel at the Northern Rockies Interagency Training Center, National Fire Academy, and National Advanced Fire and Resource Institute.

In FY 2006, 40 employees attended upper level fire management/suppression courses put on by the Northern Rockies Training Center for DNRC and local government. In the Northern Rockies Coordinating Group Zones, DNRC coordinated and instructed 134 courses for about 1,747 agency and local government participants, including DNRC employees. Through the State/County Cooperative Fire Protection Program, DNRC also sponsored 83 Suppression Skill, Incident Command System, and Standards for Survival courses for 1,372 people; 27 Basic Wildland Firefighting courses for 431 volunteer and career firefighters in 56 counties; and nine specialized support training classes for 250 people. DNRC maintains the qualifications of and certifies several hundred DNRC and local government firefighters utilizing the Incident Qualification System.

Development and Support

Through its Equipment Development Program, DNRC obtains new vehicles and federal excess property and develops it into fire suppression equipment and vehicles. This equipment is used to support the DNRC Direct Protection and County Cooperative Fire Protection programs. In FY 2006, DNRC obtained supplies, 12 vehicles, and aircraft through the Federal Excess Property Program with a total value of $2,438,774

The 113 individual development projects completed in FY 2006 are listed in Table 12.

Table 12
Development Projects in FY 2006

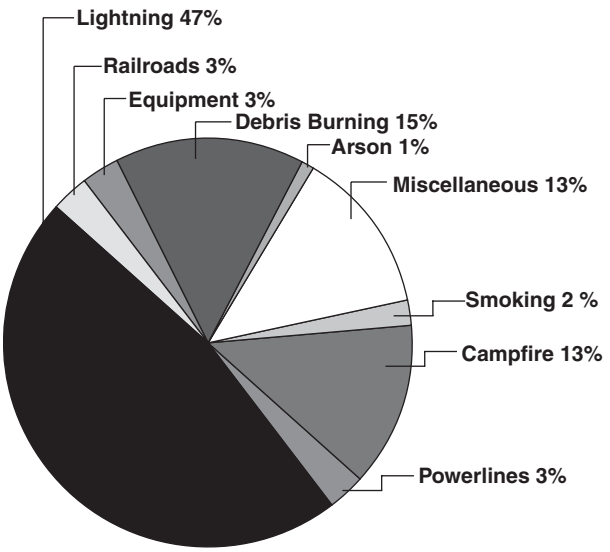
Built:	
Type 6 fire engines	26
Type 5 fire engines	4
600-gallon helicopter fuel truck	1
Flatbeds	32
Pump panels	35
Rebuilt pump heads	15

Aviation

The Aviation Section operates and maintains a fleet of 10 aircraft including seven helicopters and three fixed-wing airplanes. The three Cessna 180 series fixed-wing aircraft based in Helena, Missoula, and Kalispell are used primarily for fire patrol and personnel transportation. Three of the five Bell UH-1 series type 2 helicopters (also in Helena, Missoula, and Kalispell) are used for direct protection, and two are used for statewide fire support. Two light, type 3 Bell 206 B-III helicopters are stationed in Helena and are also available statewide. One is owned by the Department of Environmental Quality (DEQ). DNRC maintains this aircraft and provides pilot services to DEQ in return for the right to use this aircraft for fire missions. The second light helicopter is used as a back-up aircraft or for additional coverage and fire administrative missions.

In FY 2006, these aircraft flew a total of 1,476 hours. Program statistics are shown in Table 13.

Figure 14
Percentage of Fires, by Cause
(5-Year Average)



Forestry Assistance Bureau

The mission of DNRC's Forestry Assistance (FA) Bureau is to maintain and improve the health of Montana's forests, forested watersheds, and the communities that depend on them. FA promotes forest stewardship in communities and forestlands through information and education, technical assistance, financial assistance, partnerships, and forest practices regulation. The USFS State and Private Forestry Program provides funding for a variety of assistance programs.

Table 13
FY 2006 Aviation Program Accomplishments

Water/retardant dropped	858,304 Gallons
Flight hours per operation	
Fire administration	12.9 hours
Fire detection/reconnaissance	554.4 hours
Fire suppression - initial attack and extended attack	209.4 hours
Fire training	265.7 hours
Non-fire emergency	4.8 hours
Non-fire missions	137.5 hours
False alarms	7.9 hours
Water bucket	283.4 hours
Total	**1,476.0 hours**

State Conservation Seedling Nursery

The DNRC nursery produces and distributes seedlings for conservation plantings such as fire and logging reforestation, farmstead windbreaks, shelterbelts, wildlife habitat, stream stabilization, and other conservation uses. The nursery provides seedlings to private landowners in Montana, the DNRC Trust Land Management Division, the Conservation Reserve Program (CRP), Tribal agencies, the Wildlife Habitat Incentives Program (WHIP), Pheasants Forever, and numerous other conservation programs and organizations. Table 14 summarizes seedling sales and nursery revenues from FY 2005, FY 2006, and includes FY 2007 projections.

The nursery was changed to a proprietary fund program in FY 2006. This change fits with the program's history of funding all nursery activities with revenues generated from sale of nursery products and services. In FY 2006, all nursery operations and activities were funded from the nursery proprietary account. DNRC nursery seedlings were planted in 50 out of 56 counties in the state, with the greatest number going to Rosebud, Fergus, Flathead, Ravalli, and Lewis and Clark counties. The number of landowners using state nursery seedlings and the number of seedlings used in various conservation practices are itemized in Table 15.

Table 14
Nursery Seedling Sales from FY 2005 to FY 2007

	Conservation Seedling Program					Trust Land Seedling Program		
Fiscal Year	Seedlings Produced	Seedlings Delivered	Nursery Revenue	Nursery Expenditures	Nursery Cash Balance	Seedlings Requested	Seedlings Delivered	Seedling Expenditures
2005	1,013,027	916,377	$376,323	$385,039	$17,244	49,320	42,627	$34,466
2006	826,443	767,000	$381,823	$387,027	$11,986	115,480	95,889	$35,111
2007 est.	894,900	697,000	$413,600	$408,979	$16,607	114,400	110,000	$37,591

Table 15
FY 2006 Conservation Seedling Use

Conservation Practice	Reforestation	Wildlife Habitat	Windbreaks/ Shelterbelts	Stream Restoration	Other Uses	Totals
Number of Seedlings	395,172	76,669	169,861	87,810	37,488	767,000
Number of Landowners	81	131	518	36	129	895

FY 2006 FA accomplishments include:

- changed the seedling price structure to increase revenue from small orders and ensure all landowners are paying the full cost for their seedlings;
- developed production methods for larger container stock to better meet the requirements for stream restoration projects;
- increased landowner training efforts through seedling planting and care presentations at pesticide recertification workshops and Conservation District meetings;
- improved the marketing of the nursery program by creating an updated program brochure and conference display booth; and
- expanded the shadehouse production area by 100% in response to increasing demand for containerized seedlings.

Forest Pest Management Program

The Forest Pest Management Program provides technical assistance, training and workshops, and aerial surveillance data to help state land managers, professional forest resource managers, and private landowners recognize and manage forest insects and diseases. Projects are conducted in cooperation with the USFS Northern Region Forest Health Protection Group. (Some of the FY 2006 program accomplishments are listed in Table 16).

Forest health conditions are highlighted in the *2005 Montana Forest Insect and Disease Conditions and Program Highlights* report available on the web.

Private Forestry Assistance

The Forestry Assistance Program provides a range of services to private forest landowners and economic development organizations (see Table 17). By conveying forestry knowledge, DNRC helps Montanans practice forestland stewardship.

Fire Hazard Reduction

The Fire Hazard Reduction Program ensures am appropriate level of forest fuel hazard reduction as a result of logging on private lands in Montana. (see Table 18).

Forest Practices

The Forest Practices Program provides information and education about the Streamside Management Zone (SMZ) Law and forestry Best Management Practices (BMPs) to individuals, groups, corporations, and other agencies (see Table 19). The program encourages the protection of soil and water resources during timber harvesting operations.

In cooperation with the Montana Logging Association, DNRC conducted SMZ/BMP workshops in seven Montana communities for 263 loggers and landowners.

Table 16
FY 2006 Forest Pest Management Activities

Technical assistance on state and private forest lands	24 assists
Training sessions and workshops for private landowners and professional land managers	266 people
Aerial surveillance for insect and disease activity	29 million acres
Gypsy moth surveillance in Missoula and Granite counties	53 traps

Table 17
FY 2006 Private Forestry Assistance Activities

Assistance Provided	Total Number	Total Dollars
Total forestry assists Timber sale assists Information/education outreach (Person Days)*	1,033 62 = 541 MBF 294	
Conservation education – arborist training, Natural Resource Youth Camp		$ 5,000
Forestry Assistance Cost Share (Forest Lands Enhancement Program)	33 owners	$ 117,000

***includes a variety of projects**

Urban and Community Forestry

The Montana Urban and Community Forestry (UCF) Program assists communities with development and maintenance of sustainable local urban forestry programs. The program provides technical, financial, and local volunteer coordination assistance to communities and tree care professionals, and information and education to the public. The program partners with federal agencies, Montana Resource Conservation and Development (RC&D) areas, universities, green industries, and private organizations. Staff members also participate with the Montana League of Cities and Towns, local tree and park boards, and volunteer organizations. Major categories of assistance are shown in Table 20.

Fuels for Schools

Fuels for Schools is a federally funded biomass utilization cost-share program which serves two primary purposes: providing a cost-effective method of heating public and nonprofit facilities, and reducing hazardous forest fuels. Eligible facilities can convert existing high-cost heating systems to highly efficient wood-chip-fired boilers and reduce heating costs more than 50 percent. They can also receive cost-share grants for initial installation. Once the new systems are in place, cost-share facilities must utilize waste biomass generated from forest treatments for at least 50 percent of the fuel. The Forestry Assistance Bureau has partnered with the USFS, the Bitter

Table 18
FY 2006 Fire Hazard Reduction Activities

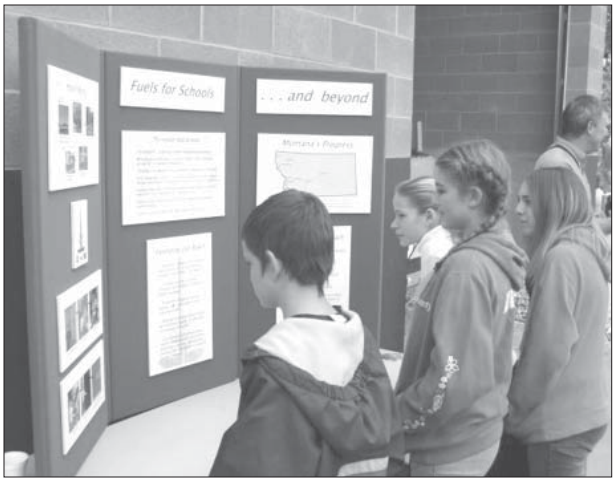
Activity	Total (No. or Dollars)
Newly opened fire hazard reduction agreements (FHRAs)	1,054
Certified and closed FHRAs	1,279
Administrative fees collected	$98,241
MSU Extension Forestry – landowner education fees collected	$56,728

Table 19
FY 2006 Forest Practices Program Activities

Activity	Number
BMP pre-harvest informational packages mailed to landowners	1,279
Pre- and post-harvest BMP/SMZ evaluations	95
Alternative practices issued	17
SMZ warnings issued	4
Forest practice violations with penalty	3

Root RC&D office, and other local RC&D offices to deliver this program.

Montana has four operating biomass heating systems at public schools in Darby, Victor, Philipsburg, and Thompson Falls. Five additional projects were funded with the 2005 federal grant, and were in the construction phase during 2006. UM-Western Campus in Dillon, Kalispell's new Glacier High School, and Troy and Townsend public schools will begin heating with wood in fall or early winter of 2006. Central Montana Medical Center in Lewistown will go out for bids for its biomass system in January 2007. Montana received a $1.025 million federal grant for use in FY 2006 and provided cost-share to three more facilities: Eureka, Deer Lodge, and Browning schools. For additional information, visit the website at www.fuelsforschools.org.



Fuels for Schools provides funds to schools throughout Montana. Photo by Angela Farr

Table 20
FY 2006 Urban and Community Forestry Activities

Activity	Total (No. or Dollars)
Communities with "developing" and/or "managing" programs[1]	130
Number of Montana "Tree City USA" communities[2]	37
Total population living in Montana Tree City USA communities	418,664
Total expenditures of Montana Tree City USA communities	$ 2.2 million
Total amount of UCF grants awarded	$ 41,000
Total amount of UCF grants leveraged	$ 90,000
International Society of Arboriculture credits offered through UCF program	16

[1] 184 total Montana communities. "Managing" communities have a management plan, tree ordinance, tree board/advisory group, and professional staff. "Developing" communities have at least one of the four qualifications.
[2] Tree City USA is a national program through the National Arbor Day Foundation. Communities must have a tree ordinance, tree board, a $2 per capita annual budget, and a designated Arbor Day Celebration.

Websites featured in this section:

www.dnrc.mt.gov/forestry/
www.fuelsforschools.org

Oil and Gas Conservation Division

Oil and Gas Conservation Division

The Board and Staff

The quasi-judicial Board of Oil and Gas Conservation (BOGC) and its staff in the Oil and Gas Conservation Division regulate the exploration and production of oil and gas in the State of Montana and are attached to the Department of Natural Resources and Conservation (DNRC) for administrative purposes.

The BOGC consists of seven members appointed to four-year terms by the governor and meets in Billings for business meetings and public hearings eight times per year. Staff is headquartered at the technical office in Billings, an administrative office in Helena, and a field office in Shelby. Field inspectors are stationed in Glendive, Plentywood, Roundup, Shelby, and Sidney.

Pumping unit in eastern Montana. Photo by Steve Sasaki

Please visit the board's website at www.bogc.dnrc.mt.gov and click on the "About MBOGC" tab for a listing of board members, office locations, and staff.

Programs

The board and staff administer two programs: the Oil and Gas Regulatory Program and the Underground Injection Control (UIC) Program.

The Oil and Gas Regulatory Program has four primary goals: prevention of waste of oil and gas, conservation of oil and gas, protection of correlative rights, and prevention of harm to surface or underground resources from oil and gas operations. To meet these goals, the board and staff regulate drilling locations, pits, surface locations, well plugging activities, and approximately 9,520 producing oil and gas wells in the state.

The UIC program is administered through a primacy agreement with the U.S. Environmental Protection Agency (EPA). The goal of the UIC program is to protect underground sources of drinking water from contamination that could result from improper disposal of liquid oil field wastes. The board regulates approximately 950 injection wells under the EPA primacy agreement.

Funding

The Oil and Gas Conservation Division uses legislatively appropriated funds from six main sources to administer the programs of the board.

- Privilege and License Taxes. The board receives a percentage of the taxes paid by oil and gas operators. Statute allows the board to receive up to .03 of one percent of the market value of crude petroleum and natural gas produced, saved, marketed, and stored in the state. The board sets the amount of privilege and license tax it receives, up to the maximum allowed under statute. In mid-2005, the board reduced its privilege and license tax allocation again,[1] from 2.6/10's of one percent to 1.8/10's of one percent. These funds support the Oil and Gas Regulatory program.
- Annual injection well fees. The board is statutorily authorized to charge an annual fee of up to $300 per injection well to help defray the cost of administering the UIC program. The board has set the annual injection well fee at $200 per well.
- Federal grant funds. The board receives grant funds from the EPA to administer the UIC Program.
- Bond forfeitures. Per statute, oil and gas operators in the state must post a bond with the board to assure their wells will be properly plugged and abandoned. The board can order forfeiture of those bonds, with notice, for failure to perform. The board uses forfeited bond funds to plug orphaned and abandoned wells.

[1] The board first reduced its allocation in July 2001, from 3/10's of one percent to 2.6/10's of one percent.

- Interest from the Resource Indemnity Trust (RIT) Fund. The board is statutorily appropriated up to $50,000 each biennium from RIT interest income. The board uses RIT interest funds to support emergency clean-up or plugging activities, and to plug orphaned and abandoned wells.
- State grant funds. The board receives Reclamation and Development Grant (RDG) funds from the DNRC Conservation and Resources Development Division. These funds are used to plug orphaned and abandoned wells.

2005 Activity Review

Oil and gas production in the state continued to increase during 2005 primarily because of horizontal Bakken Formation oil development in Richland County and the associated gas produced from those wells.[2]

The number of new well permits issued in 2005 increased by 55 percent. The number of vertical well permits increased by 68 percent, and the number of horizontal well permits increased by 16 percent.

The board issued 32 percent more orders in 2005 than in 2004. The number of orders issued by the board reflected the volume of hearing applications received by the board, which also increased in 2005.

2005 Program Highlights

- The board received 593 applications for public hearing and issued 522 orders.
- The board conducted its July business meeting and public hearing in Sidney, and toured a gas plant, a drilling site, and a producing location in the area.
- The board approved five new coal bed natural gas devlopment plans and amended two existing coal bed natural gas development plans.
- The board plugged 24 orphaned wells, restored seven surface locations, and completed one pit restoration at a cost of $264,540.
- Field staff performed 3204 inspections: 375 of the inspections failed, 296 inspections were to witness mechanical integrity tests on injection wells, and 32 inspections resulted from complaints made to the board or staff.
- Staff received notice of 28 new seismic projects, most in Hill and Blaine counties.

[2] Associated gas is gas produced from an oil well. Non-associated gas comes from a gas well.

Table 21
2005 Summary

Production		Reported Volume	Change from Previous Years
Total Liquids production		32,798,320 barrels	32.69%
Oil		32,791,888 barrels	32.69%
Condensate		6,432 barrels	1.85%
Total gas production		108,562,404 mcf	10.82%
Associated gas		(thousand cubic feet)	59.19%
Natural gas		16,927,128 mcf	4.93%
		91,635,276 mcf	
Permits			
Re-issued permits	301	Horizontal wells	238
New wells permitted	1,306	Vertical wells	1,068
Permits for horizontal re-entry of existing vertical wells			44
Board Orders			
Total number of orders issued included the following actions:			522
Exception to spacing or field rule			141
Field delineation,enlargement,or reduction			15
Field delineation,enlargement,or reduction			15
Certification for tax incentive			18
Temporary or permanent spacing unit designation			321
Class II injection permits			22

Table 21 highlights 2005 production, permit, and board order activities.

Table 22
Five-Year Production

	2001	2002	2003	2004	2005
Oil Production (Barrels)					
Northern Montana	1,430,087	1,313,544	1,276,637	1,268,137	1,266,590
Central	650,982	630,368	598,971	565,150	535,873
South Central	656,160	603,383	572,145	555,662	534,202
Northeastern	13,369,437	14,277,806	16,823,832	22,164,802	30,297,221
Southeastern	173,567	157,118	141,033	158,632	158,002
Total	16,280,233	16,982,219	19,412,618	24,712,383	32,791,888
Number of Producing Oil Wells					
Northern Montana	1,854	1,765	1,773	1,801	1,833
Central	220	215	224	221	220
South Central	131	130	128	125	133
Northeastern	1,344	1,394	1,435	1,547	1,709
Southeastern	62	57	52	54	67
Total	3,611	3,561	3,612	3,748	3,962
Average Daily Oil Production Per Well					
Northern Montana	2.7	2.6	2.6	2.5	2.4
Central	10.4	10.7	9.5	9.0	8.6
South Central	16.3	14.5	14.3	14.0	13.7
Northeastern	30.9	31.9	36.7	45.8	56.8
Southeastern	10.0	9.1	8.4	9.5	9.3
State Average	15.1	16.0	18.1	22.1	27.6
Non-Associated Gas Production in MCF					
Northern Montana	57,117,885	56,134,012	55,204,930	55,786,548	56,432,676
Central	92,185	245,304	201,358	126,541	180,941
South Central	9,300,792	11,103,921	8,492,510	13,598,459	12,881,341
Northeastern	8,287,408	11,514,824	14,188,647	17,559,564	21,944,107
Southeastern	384,830	314,136	287,241	256,582	196,211
Total	75,183,100	79,312,197	78,374,686	87,327,694	91,635,276
Number of Producing Gas Wells					
Northern Montana	3,688	3,820	3,933	4,109	4,269
Central	8	6	6	5	8
South Central	280	292	378	486	569
Northeastern	344	412	489	588	704
Southeastern	8	7	7	7	7
Total	4,328	4,537	4,813	5,195	5,557
Average Daily Gas Production Per Well					
Northern Montana	46.8	43.8	41.7	41.0	39.6
Central	38.1	123.8	101.9	76.7	98.0
South Central	110.3	115.1	81.4	86.2	71.9
Northeastern	77.7	88.4	89.5	94.1	97.6
Southeastern	141.7	126.4	124.8	105.5	80.7
State Average	53.1	52.4	49.2	51.1	50.0

Table 22 provides a five-year comparison of oil and non-associated gas production in the state by region.

Table 23
2005 County Drilling and Production Statistics

	Production			Well Completions				
County	Oil Barrels	Assoc. Gas MCF	Gas MCF	Oil	Gas	CBM	Dry	Service
Big Horn	65,389	0	11,629,93	1	0	160	1	1
Blaine	206,938	0	12,835,39	1	66	0	9	0
Carbon	468,242	683,557	1,092,673	1	0	0	1	0
Carter	0	0	0	0	1	0	0	0
Chouteau	0	0	2,043,297	0	1	0	1	0
Custer	0	0	96,477	0	0	0	0	0
Daniels	19,384	298	0	0	0	0	0	0
Dawson	601,609	208,085	30	7	2	0	0	0
Fallon	7,547,096	2,127,517	21,514,611	23	115	0	0	0
Fergus	0	0	85,872	0	0	0	1	0
Garfield	18,159	2,190	0	0	0	0	0	0
Glacier	468,246	107,949	1,632,953	0	0	0	0	0
Golden Valley	0	0	95,069	0	0	0	0	0
Hill	786	0	14,098,567	0	59	0	31	0
Lewis and Clark	0	0	0	0	0	0	1	0
Liberty	90,060	43,836	2,171,846	0	1	0	1	0
McCone	12,832	0	0	0	0	0	1	0
Musselshell	160,545	15,880	0	0	0	0	2	0
Petroleum	36,255	4,080	0	0	0	0	1	0
Phillips	0	0	18,026,28	0	71	0	0	0
Pondera	142,378	0	369,128	0	5	0	1	0
Powder River	158,002	13,985	99,734	0	0	2	2	0
Prairie	123,405	9,767	1,129	0	1	0	0	0
Richland	18,143,97	11,747,13	1,175	137	0	0	2	0
Roosevelt	1,401,396	778,128	704	3	0	0	1	0
Rosebud	308,452	16,820	0	0	0	0	1	0
Sheridan	1,466,996	774,844	71	13	0	0	2	2
Stillwater	0	0	118,194	0	0	0	0	0
Sweet Grass	0	0	40,537	0	0	0	1	0
Teton	52,790	0	530	0	0	0	0	0
Toole	308,588	116,380	4,113,427	2	10	0	7	0
Valley	156,525	13,136	1,141,247	0	2	0	1	0
Wibaux	824,004	263,545	426,454	2	0	0	1	0
Yellowstone	16,269	0	0	3	0	0	2	0
Total:	32,798,32	16,927,12	91,635,27	193	334	162	71	3

Table 23 breaks out 2005 oil, associated gas, and non-associated gas production by county. It also shows the number and type of wells completed by county in 2005.

Websites featured in this section:
www.bogc.dnrc.mt.gov

Reserved Water Rights Compact Commission

Reserved Water Rights Compact Commission

Working to "*conclude compacts for the equitable division and apportionment of waters between the State and its people and the several Indian Tribes claiming reserved water rights within the state*" (MCA 85-2-701) and "*between the State and its people and the federal government claiming non-Indian reserved waters within the state*" (MCA 85-2-703).

The Montana Legislature created the Reserved Water Rights Compact Commission (RWRCC) in 1979, the same year that it created the Montana Water Court. The purpose of the commission is to negotiate water rights settlements, on behalf of the State of Montana, with Indian Tribes and federal agencies claiming federal reserved water rights in the state. For more information on the commission and federal reserved water rights, please see the website at: www.dnrc.mt.gov/rwrcc/.

Release works for Dodson South Canal. Historical photo by U.S. Bureau of Reclamation

The Compact Commission

The RWRCC is made up of nine members who serve four-year terms. One member is appointed by the Attorney General's Office, four by the Governor's Office, two by the Speaker of the House, and two by the President of the Senate. Current RWRCC members are listed on the RWRCC website. RWRCC is supported by an eight-member staff.

Federal Reserved Water Rights

A federal reserved water right is a right to water that was created when Congress or the president of the United States reserved land out of the public domain. Federal reserves in Montana are shown in Figure 15.

Current Negotiations

In Fiscal Year (FY) 2006, commission members and staff concentrated on the following Tribal and federal negotiations:

Blackfeet Tribe of the Blackfeet Reservation

In FY 2006, the parties moved closer to solutions to remaining legal and technical issues for the settlement of water rights in the hope of presenting a compact to the 2007 Legislature. The Tribe is involved in the St. Mary Rehabilitation Working Group, which is exploring rehabilitation of the St. Mary diversion facilities, a major project of the U.S. Bureau of Reclamation (BOR). Settling the Tribe's water rights to the Milk and St. Mary rivers will be an important component of this effort.

Confederated Salish and Kootenai Tribes of the Flathead Reservation

In FY 2006, the parties developed a protocol for sharing technical data necessary for the negotiations. The parties hope to submit a compact to the Montana Legislature in 2009.

Crow Tribe

The Crow Tribe and RWRCC legal counsel worked to draft federal legislation which the parties hope will go to Congress. Following passage of federal legislation, the compact must be approved by a Tribal referendum and approved by the Montana Water Court.

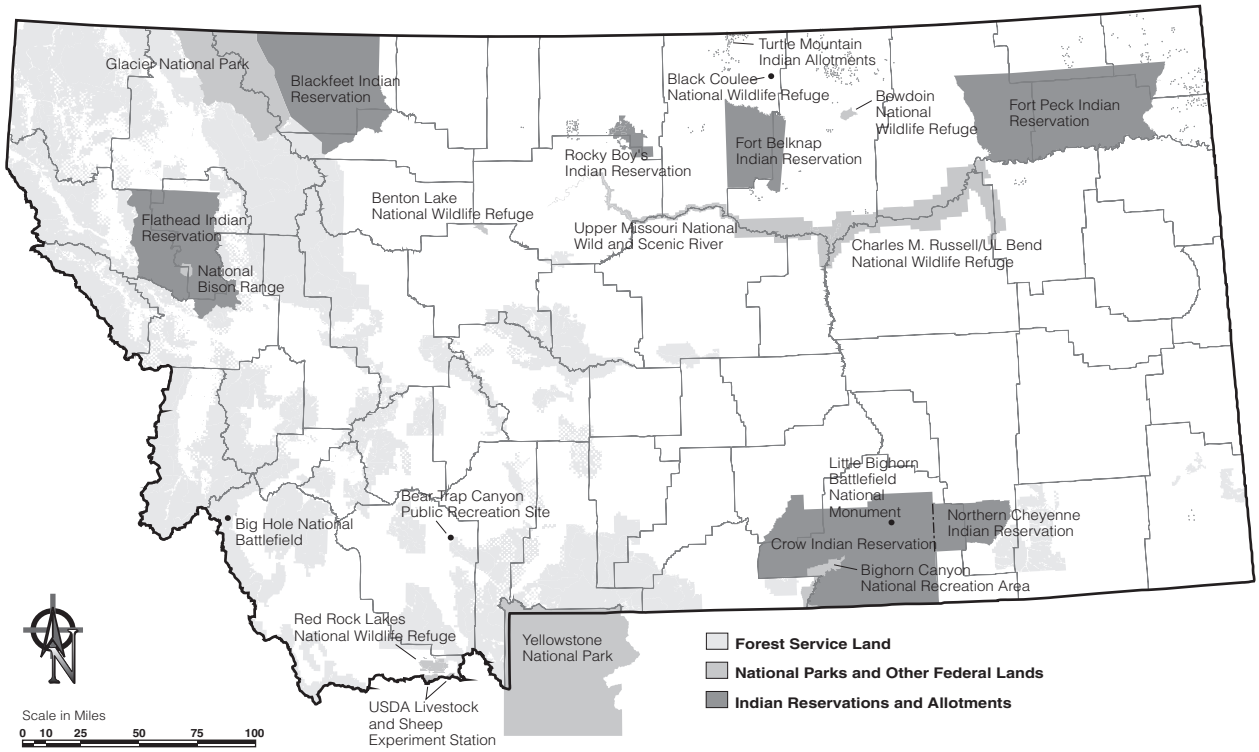
Gros Ventre and Assiniboine Tribes of the Fort Belknap Reservation

Tribal attorneys and RWRCC legal counsel worked to draft federal legislation for submission to Congress. The compact must then be approved by a Tribal referendum and the Montana Water Court.

U.S. Department of the Interior National Wildlife Refuges

In FY 2006, negotiations continued with the U.S. Fish and Wildlife Service (FWS) on Bowdoin National Wildlife Refuge near Malta. Department of Natural Resources and Conservation (DNRC) staff continued to monitor salinity levels in Beaver Creek, a tributary of the Milk River, and RWRCC and FWS hydrologists utilized the data to prepare a model for water discharge. RWRCC is contracting

Figure 15
Federal Reserves in Montana



with a Montana State University scientist to review the discharge plan.

Negotiations with FWS on two remaining units, Charles M. Russell/UL Bend National Wildlife Refuge and The National Bison Range, will continue later.

U.S. Department of Agriculture National Forests

The parties contracted with a mediator to facilitate discussions between the commission and the U.S.D.A. Forest Service (USFS) and technical work using the wetted perimeter method of stream analysis continues. Further negotiating sessions are scheduled, with the parties hoping to prepare a compact for public review and comment before the 2007 legislative session.

U.S. Department of Agriculture Livestock and Sheep Experiment Stations

The U. S. Department of Agriculture (USDA) worked on preparing compact proposals for the Livestock and Sheep Experiment Stations.

Other Reserved Rights

The Turtle Mountain Band of Chippewa owns numerous small allotments scattered throughout Montana. In light of the commission's 2009 sunset date, the RWRCC will request a meeting with the Tribe to discuss how to resolve potential water rights associated with these parcels.

Horse teams hauling the St. Mary siphon. Historical photo by US Bureau of Reclamation

Websites featured in this section:

www.dnrc.mt.gov/rwrcc

Completed Compacts

Table 24
Compacts Concluded by the Reserved Water Rights Compact Commission

Compact	Date Finalized
Assiniboine and Sioux Tribes of the Fort Peck Indian Reservation MCA 85-20-201	May 1985
Northern Cheyenne Tribe MCA 85-20-301 PL 102-374	April 1991
U.S. National Park Service Yellowstone National Park Glacier National Park Big Hole National Battlefield MCA 85-20-401	January 1994
U.S. National Park Service Little Bighorn Battlefield National Monument Bighorn Canyon National Recreation Area MCA 85-20-401	May 1995
U.S. Bureau of Land Management (BLM) Wild and Scenic Missouri River Bear Trap Canyon, Madison River MCA 85-20-501	March 1997
U.S. Fish and Wildlife Service (FWS) Benton Lake National Wildlife Refuge Black Coulee National Wildlife Refuge MCA 85-20-701	March 1997
Chippewa Cree Tribe of the Rocky Boy's Indian Reservation MCA 85-20-601 PL 106-163	April 1997
U.S. Fish and Wildlife Service (FWS) Red Rock Lakes National Wildlife Refuge MCA 85-20-801	April 1999
Crow Tribe MCA 85-20-901	June 1999*
Gros Ventre and Assiniboine Tribes of the Fort Belknap Reservation MCA 85-20-1001	April 2001

***Special Legislative Session**

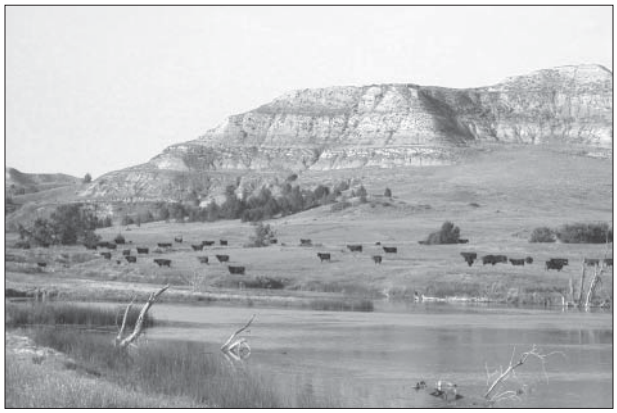
Trust Land Management Division

Trust Land Management Division

Managing the state of Montana's trust land resources to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land.

Overview

General background information on the Trust Land Management Division (TLMD) is available on the department's website: www.dnrc.mt.gov/trust/



Cattle graze on state trust land. Photo by Dave Mousel

History

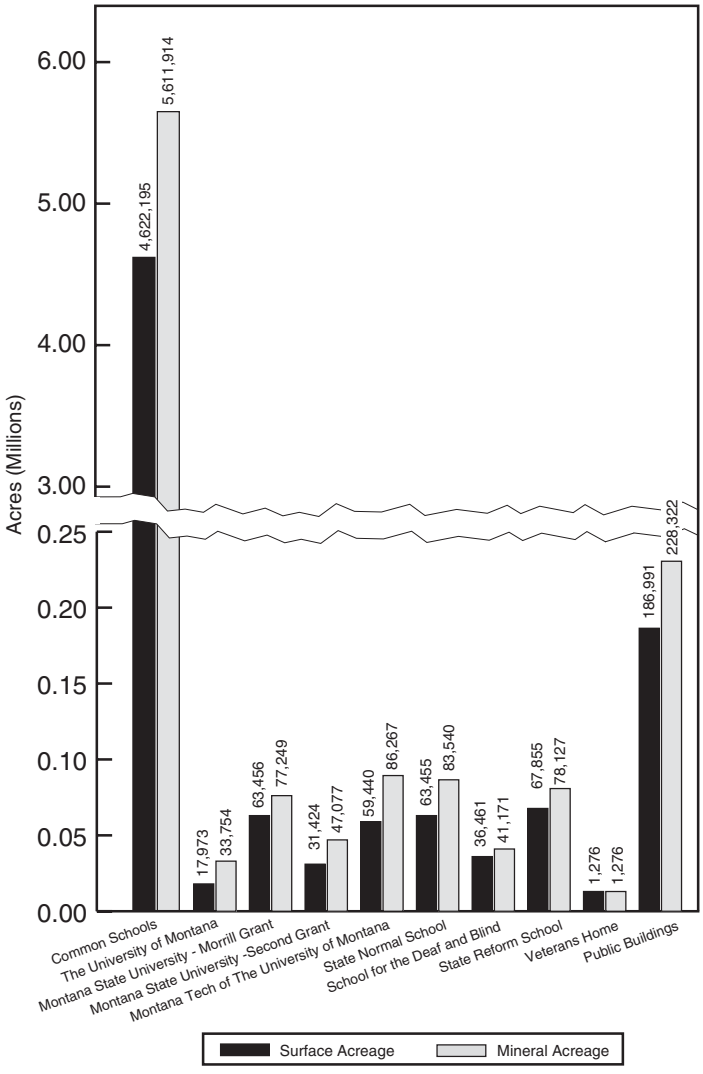
By the Enabling Act approved February 22, 1889, the Congress of the United States granted to the state of Montana, for common schools support, sections 16 and 36 in every township within the state. Some of these sections had been homesteaded, some were within the boundaries of Indian reservations, and others had been disposed of before passage of the Enabling Act. Other lands were selected by the state in lieu of these lands.

The Enabling Act and subsequent acts also granted acreage for other educational and state institutions, in addition to the common schools. The trust beneficiaries of these institutions include:

- The University of Montana
- Montana State University–Morrill Grant
- Montana State University–Second Grant
- Montana Tech of The University of Montana
- State Normal School (Montana State University–Billings and The University of Montana–Western)
- School for the Deaf and Blind
- State Reform School (Pine Hills)
- Veterans Home
- Public Buildings

The total acreage (see Figure16) has fluctuated through the years due to land sales and acquisitions. Surface acreage at the end of Fiscal Year (FY) 2006 totals over 5.1 million acres; mineral acreage exceeds 6.2 million acres. Mineral acreage now exceeds surface acreage because the mineral estate has been retained when lands were sold.

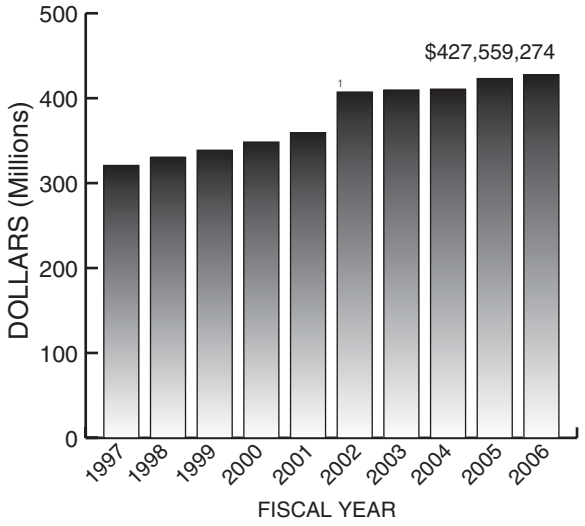
Figure 16
Current Land Ownership
(as of August 1, 2006)



The Permanent Fund

The Enabling Act states that proceeds from the sale and permanent disposition of any of the trust lands, or part thereof, shall constitute permanent funds for the support and maintenance of public schools and the various state institutions for which the lands had been granted. The Montana Constitution provides that these permanent funds shall forever remain inviolate, guaranteed by the state of Montana against loss or diversion. These funds are often referred to as "nondistributable." Figure 17 shows the Permanent Fund balance over the last 10 years. The balance of the Permanent Fund was $427,559,274 for FY 2006.

Figure 17
Permanent Fund Balance



[1] Fiscal Year 2002 total includes $46.4 million in coal trust loan proceeds, pursuant to Senate Bill 495 (2001 Legislature).

Other Revenues

Table 27 shows the gross distributable and nondistributable interest and income for each of the trust beneficiaries. In FY 2006, the division used a portion of trust land revenues to fund administrative appropriations as shown in Table 25.

In addition to management activities on behalf of trust beneficiaries, the division generated other revenues and distributions in FY 2006. The five-year summary presented in Table 28 shows gross revenues of over $105 million for all division activities. Table 26 provides a reconciliation of other revenues and distributions from the Table 27 and Table 28 summaries.

Table 25
Funding of Trust Land Administration

Trust Administration Account (77-1-108, MCA)	$ 4,129,027
Timber Sale Account (77-1-613, MCA)	3,441,078
Forest Improvement Fees (77-5-204, MCA)	2,875,277
Resource Development Account (77-1-604, MCA)	1,071,270
Recreational Use Account (77-1-808, MCA)	97,964
Commercial Leasing Account (77-1-905, MCA)	54,466
General Fund - MSU Morrill Grant	9,053
Total	**$ 11,678,135**

Table 26
Reconciliation of Revenues and Distributions

Gross distributable revenues	$ 79,914,071
Gross nondistributable revenues	4,403,597
Technology Acquisition Fund	4,641,388
Senate Bill 495 debt service	13,104,719
Forest Improvement Fees	2,875,277
General Fund revenues	207,796
Nonland grant income and other Revenues	237,050
Total	**$105,383,898**

Technology Acquisition and Depreciation Fund

In FY 2006, the TLMD generated $4,641,388 from the sale of timber on common schools land for the Technology Acquisition and Depreciation Fund, pursuant to 20-9-343, MCA. This fund is administered by the Office of Public Instruction and used for purchases as defined in 20-9-533, MCA.

Distribution of Revenues

Each section of state trust land is assigned to a specific trust. As explained in the following subsection, distribution of revenues is handled in three different ways, depending on the section of trust land that generated the revenue.

In addition to state trust land, the TLMD also utilizes some General Fund dollars to administer land for other state agencies. Revenue generated from that land is transferred directly to the appropriate state agency.

Common Schools, Universities, and Other Trusts

The distribution of revenues generated from common schools trust land is illustrated in Figure 18. From the distributable receipts, a small percentage is used to fund the Resource Development Account, the Timber Sale Account, the Recreational Use Account, and the Commercial Leasing Account. Ninety-five percent of the remaining distributable revenue is distributed yearly to the state Guarantee Account for

Table 27
FY 2006 Revenues by Trust

Distributable Revenues Trust	Gross Distributable Revenues	Resource Development	Timber Sale Account	Trust Admin. Account	Recreational Use Account	Commercial Leasing Account	Net Distributable Revenues
Common Schools	$73,033,731[1]	$1,011,470	$2,707,337	$3,904,704	$89,037	$46,626	$65,274,557
The University of Montana	189,045	2,882	29	0	357	336	185,441
MSU - Morrill Grant[4]	528,119	0	0	0	0	0	528,119
MSU - Second Grant	1,585,272	12,439	174,380	0	605	1,272	1,396,576
Montana Tech	913,477	16,454	14,919	0	1,141	2,163	878,800
State Normal School	868,918	5,698	80,739	0	1,230	1,582	779,669
School for the Deaf and Blind	295,757	3,294	0	0	704	720	291,039
State Reform School (Pine Hills)	405,775	5,931	0	0	1,299	1,454	397,091
Veterans Home	11,536	309	0	0	0	1	11,226
Public Buildings	2,082,441	12,793	412,498	62,659	3,591	312	1,590,588
Total	**$79,914,071**	**$1,071,270**	**$3,389,902**	**$3,967,363**	**$97,964**	**$54,466**	**$71,333,106**

Nondistributable Revenues Trust	Gross Nondistributable Revenues	Timber Sale Account	Trust Admin. Account[3]	Net Nondistributable Revenues	Permanent Fund Balance[2]
Common Schools - permanent	$3,529,247	$0	$72,591	$3,456,656	$396,529,406
University of Montana	1,147	0	166	981	1,500,943
MSU - Morrill Grant[4]	60,149	0	0	60,149	3,646,386
MSU - Second Grant	2,755	0	398	2,357	8,475,519
Montana Tech	549,993	0	50,852	499,141	5,044,678
State Normal School	66,096	0	9,562	56,534	6,061,334
School for the Deaf and Blind	93,091	24,408	13,467	55,216	3,007,379
State Reform School (Pine Hills)	101,119	26,768	14,628	59,723	3,276,887
Veterans Home	0	0	0	0	16,742
Total	**$4,403,597**	**$51,176**	**$161,664**	**$4,190,757**	**$427,559,274**
Technology Acquisition Fund	$4,641,388			$4,641,388	
TOTAL	**$88,959,056**	**$1,071,270**	**$3,441,078**	**$4,129,027**	**$97,964**	**$54,466**	**$80,165,251**	**$427,559,274**

[1] Includes common schools mineral royalties of $25,611,745 less $13,104,719 in debt service costs, per SB 495.
[2] Trust balances reflect deposit activity by DNRC only, and do not include valuation adjustments from investment activities by the Board of Investments.
[3] Includes $400 in Nomination Fees for the Land Banking Program.
[4] MSU-Morrill Grant administrative costs were paid by the General Fund for FY 2006.

use by public schools of the state. The other 5 percent, together with nondistributable revenue, comprise the Permanent Fund. The interest earned on the Permanent Fund is also distributed to the Guarantee Account for use by public schools, with the exception of 5 percent, which is returned to the Permanent Fund for reinvestment.

Distribution of revenues to the university trusts and other trusts is similar to that of the common schools trust. The exception is the Montana State University Trust for the Morrill Grant, which does not fund administrative cost accounts. For the University Trusts, timber sale revenues are considered distributable and for the other trusts, nondistributable. The Public Buildings Trust does not have a permanent fund, so remaining receipts are distributed to the Department of Administration.

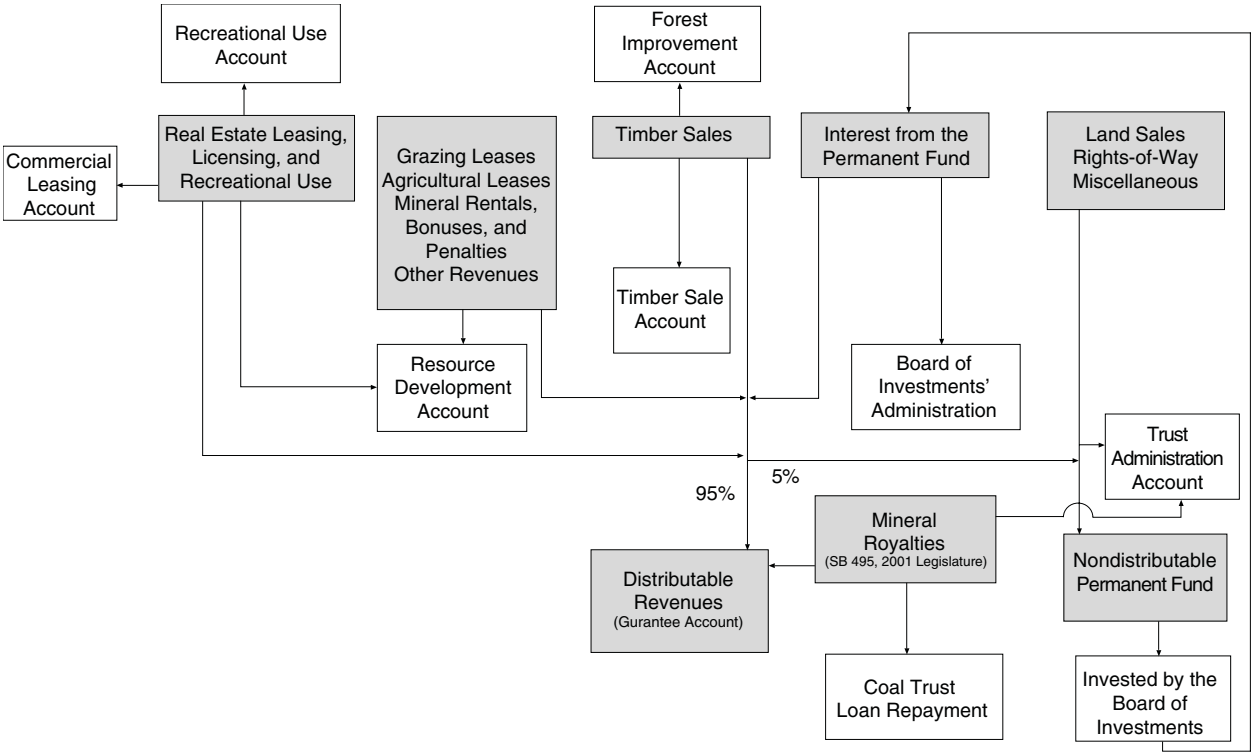
Division Overview

The purpose of the TLMD is to administer and manage the state trust timber, surface, and mineral resources for the benefit of the common schools and other endowed institutions in Montana, under direction of the Board of Land Commissioners. The Board of Land Commissioners, which is often called the "State Land Board," consists of Montana's top elected officials:

Table 28
Five-Year Summary of Gross Revenue Generated (by Activity)

Activity	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Agriculture & Grazing Management					
Grazing Leases	$ 6,047,838	$ 5,818,832	$ 5,467,667	$ 6,566,134	$ 6,984,191
Agricultural Leases	7,232,111	8,297,415	8,419,535	9,227,415	9,868,305
Totals	**$ 13,279,949**	**$ 14,116,247**	**$ 13,887,202**	**$ 15,793,549**	**$ 16,852,496**
Forest Management					
Timber Sales	$8,282,481	$6,915,128	$ 9,013,900	$13,651,631	$ 13,000,338
Forest Improvement Fees	1,404,363	1,363,664	2,029,625	2,944,560	2,875,277
Totals	**$ 9,686,844**	**$ 8,278,792**	**$ 11,043,525**	**$ 16,596,191**	**$ 15,875,615**
Minerals Management					
Oil & Gas Revenues					
Rentals/Bonuses/Penalties	$2,462,315	$ 2,402,510	$ 3,187,540	$ 6,554,239	$ 16,656,283
Royalties	3,954,898	5,759,027	7,703,137	12,546,647	21,377,566
Seismic Exploration	13,280	9,744	4,690	4,796	5,459
Aggregate Minerals					
Rentals	400	175	600	100	250
Royalties	158,044	168,078	173,178	227,171	417,794
Coal					
Rentals/bonuses	45,810	43,897	43,897	40,057	41,524
Royalties	2,836,919	3,877,054	4,676,964	4,239,865	4,179,503
Other Minerals					
Rentals/Penalties	21,775	17,179	20,009	25,584	32,295
Royalties	7,813	4,984	972	3,389	5,513
Totals	**$ 9,501,254**	**$ 12,282,648**	**$ 15,810,987**	**$ 23,641,848**	**$ 42,716,187**
Real Estate Management					
Rights-of-way/Easements	$307,274	$189,078	$ 2,117,993	$ 1,068,335	$ 1,075,914
Residential Leases/Licenses	854,626	949,102	929,995	1,024,125	1,129,768
Land Sales	15,954	19,744	2,900	25,797	0
Other Leases/Licenses	508,399	579,409	565,931	938,280	966,687
Recreational Use					
General Licenses	517,730	558,690	286,352	64,246	52,759
Conservation Licenses	0	0	515,628	916,806	881,276
Special Recreation Use Licenses	114,629	91,190	112,304	109,378	103,613
Totals	**$ 2,318,612**	**$ 2,387,213**	**$ 4,531,103**	**$ 4,146,967**	**$ 4,210,017**
Other					
Trust and Legacy Interest	$ 29,661,124	$ 29,210,558	$ 30,140,513	$ 28,375,978	$ 24,850,054
Other Revenues	416,871	342,572	316,450	586,932	879,529
Totals	**30,077,995**	**29,553,130**	**30,456,963**	**28,962,910**	**25,729,583**
TOTALS	**$ 64,864,654**	**$ 66,618,030**	**$ 75,729,780**	**$ 89,141,465**	**$105,383,898**

Figure 18
Distribution of Revenues from Common Schools Trust Lands



Brian Schweitzer, Governor
Brad Johnson, Secretary of State
Linda McCulloch, Superintendent of Public Instruction
Mike McGrath, Attorney General
John Morrison, State Auditor

The division is divided into four primary programs: agriculture and grazing management, forest management, minerals management, and real estate management. Staff and program specialists in Helena and Missoula provide program administration, direction, oversight, and support. Field personnel throughout the state provide on-the-ground management.

The department's obligation is to obtain the greatest benefit for the school trusts pursuant to 77-1-202, MCA. The greatest monetary return must be weighed against the long-term productivity of the land to ensure continued future returns to the trusts. Total gross revenues generated by the TLMD over the last five years are listed by activity in Table 28. This table contains not only trust revenues, but also those revenues collected for other state entities and the General Fund, revenues generated to fund appropriations, and other miscellaneous revenues collected by the division.

Ten-Year Net Revenue Summary

Figure 19 reflects net revenue growth from FY 1997 to FY 2006. Revenues from land management activities were combined with interest income generated from the Permanent Fund investments less annual expenditures. As a result, net revenue from all income sources increased from approximately $57 million in FY1997 to $95 million in FY 2006.

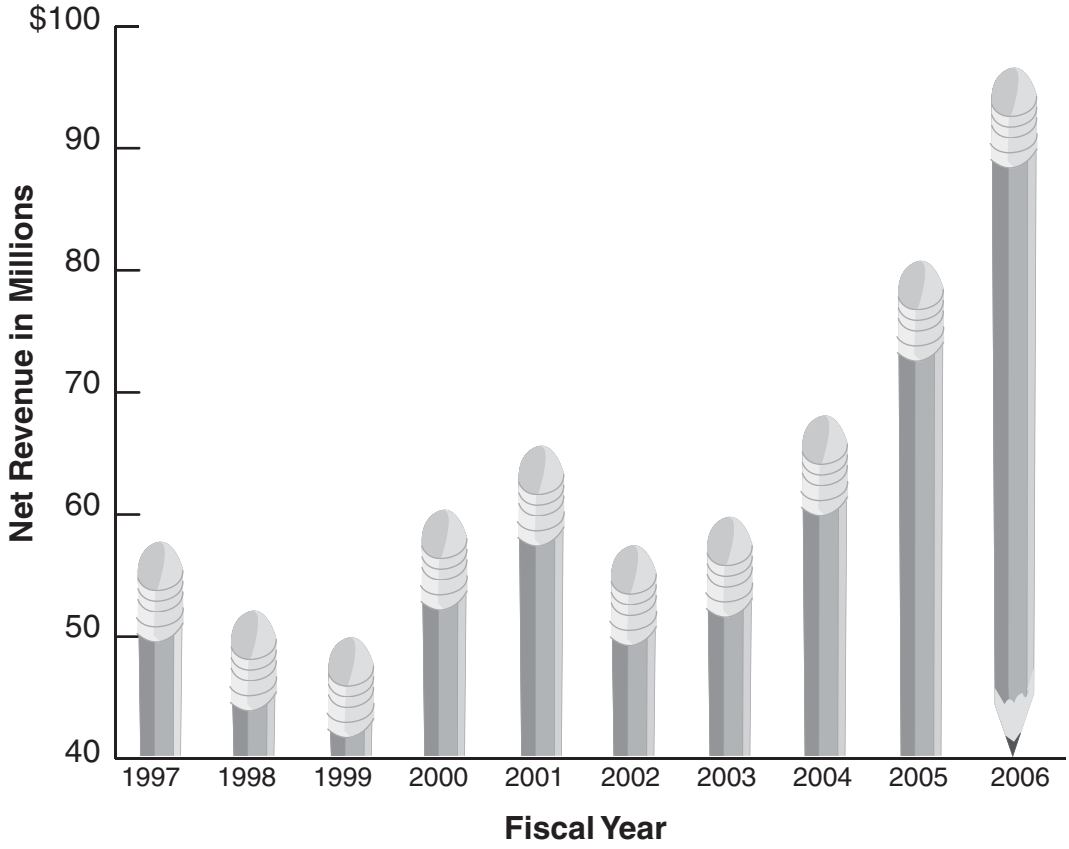
Agriculture and Grazing Management

The Agriculture and Grazing Management Bureau supervises the management and leasing of approximately 10,000 agreements for crop and range land uses on 4.65 million acres of school trust lands throughout the state. Administrative staff and specialists in the department's Helena office and staff in field offices statewide accomplish these duties.

Surface Leasing

The program is responsible for administrative functions associated with maintaining surface lease agreements. Annual activities include processing

Figure 19
Ten-Year Net Revenue Summary



approximately 1,000 lease renewals; advertising, competitively bidding, and issuing approximately 50 new leases; reviewing and processing assignments, subleases, pasturing agreements, custom farming agreements, pledges, and mortgages; and collecting, verifying, and posting rentals and fees.

Land Management

The program manages the agricultural and grazing resources on lands administered by the bureau. This responsibility includes evaluation and assessment of range and crop land condition; compliance with the Montana Environmental Policy Act (MEPA); administration of archaeological, paleontological, and historical properties on state trust land; investigations of lease noncompliance; participation in the federal Farm Program; and oversight of water developments, water rights, and improvement projects such as range renovation and resource development.

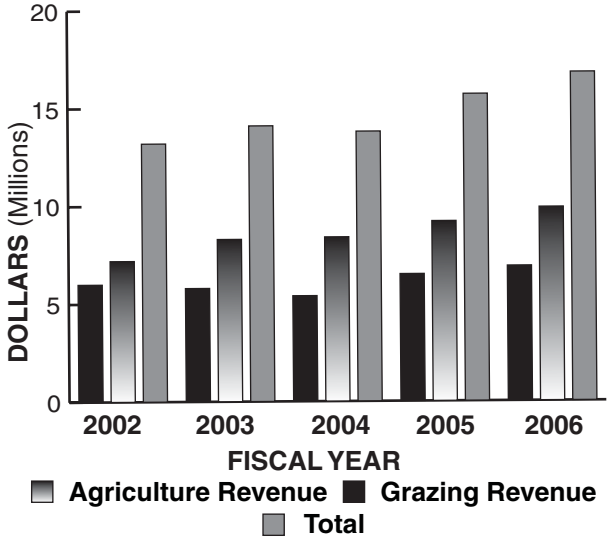
Agricultural and Grazing Lands

Currently, 3,000 agreements cover agricultural use of state trust lands. Crops raised on these lands are primarily dry land hay and small grains, but also include irrigated grain crops, corn, sugar beets, potatoes, peas, lentils, garbanzo beans, canola, safflower, alfalfa seed, and native grass seed.

In FY 2006, revenues totaling $9,868,305 were received from agricultural leasing on 571,000 acres (see Figure 20). The majority of the leases are on a crop-share basis with the minimum share of 25 percent set by statute. In addition to receiving rental payments from lessees, the state participates in and receives Farm Program payments from the U. S. Department of Agriculture (USDA) Farm Service Agency. For FY 2006, this amount exceeded $3.3 million for direct payment contracts, lands enrolled in the Conservation Reserve Program (CRP), and loan deficiency payments. Also during FY 2006, re-enrollment was initiated for nearly 80,000 acres of CRP contracts that will expire in 2007.

Approximately 8,500 agreements include grazing use of trust lands. The 4.3 million acres of classified

Figure 20
Agricultural and Grazing Revenue



grazing lands and forest lands have an estimated carrying capacity of 1,110,000 animal-unit-months (AUMs). The minimum rental rate ($6.99/AUM) for grazing leases is set by a formula which includes the average weighted price for beef cattle sold in Montana during the previous year. In FY 2006, grazing leases generated $6,984,191.

Biennial Weed Performance Reports

Under the County Noxious Weed Control Act (7-22-2151, MCA), state agencies, in conjunction with county weed districts, are required to complete biennial performance reports that summarize weed control activities over the previous two years for the lands they manage within the county. In FY 2006, these reports were completed for all 56 counties and submitted to the Montana Department of Agriculture. That information will be summarized and presented to the 2007 Legislature. In addition to these reports, work has begun on a Statewide Weed Management Plan for the DNRC that should be completed during FY 2007.

Forest Management

The mission of the Forest Management Bureau is: *"To sustainably manage Montana's forested trust lands to maximize long-term revenue while promoting healthy and diverse forests"* on over 730,000 acres. Revenue from forested trust lands is mainly derived from the sale of forest products. This requires the teamwork of 72 bureau and field staff.

The State Forest Land Management Plan (SFLMP), approved by the State Land Board in 1996 and associated rules (2003), guide the management of forested trust lands. This guidance is provided in the form of a general management philosophy and specific resource management standards. The strategic guidance provided by the SFLMP is summarized in this excerpt:

> *Our premise is that the best way to produce long-term income for the trust is to manage intensively for healthy and biologically diverse forests. Our understanding is that a diverse forest is a stable forest that will produce the most reliable and highest long-term revenue stream. Healthy and biologically diverse forests would provide for sustained income from both timber and a variety of other uses. They would also help maintain stable trust income in the face of uncertainty regarding future resource values. In the foreseeable future timber management will continue to be our primary source of revenue and primary tool for achieving biodiversity objectives.*

Forest Product Sales

The forest product sales program incorporates activities and expenditures required to grow, harvest, and sell forest products from state trust lands efficiently. All timber sales and permits are developed, analyzed, and reviewed in the field by foresters and resource specialists to ensure that sales comply with all applicable laws, policies, and management direction.

The current annual sustained yield from forested trust lands is 53.2 million board feet as determined by the 2004 Sustained Yield Study.

In FY 2006, 23 timber sales (49.7 million board feet) and 55 timber permits (3.6 million board feet) totaling 53.3 million board feet were sold (see Figure 21). This sold volume has an estimated stumpage value of $15,570,742 and an additional $984,857 in Forest Improvement fees.

During FY 2006, a total of 56.5 million board feet of timber was harvested from state trust lands, generating $13,000,338 in stumpage revenue (see Figure 22) and an additional $2,875,277 in Forest Improvement fees. The total harvest volume includes timber sale and permit volume.

The average price per thousand board feet for volume harvested in FY 2006 was $230 compared to $234 in FY 2005, a 1.7 percent decrease. The average price received for volume sold in FY 2006 was $292 per thousand board feet compared to $267 in FY 2005. The average Forest Improvement fee

Figure 21
Timber Volume Sold and Harvested

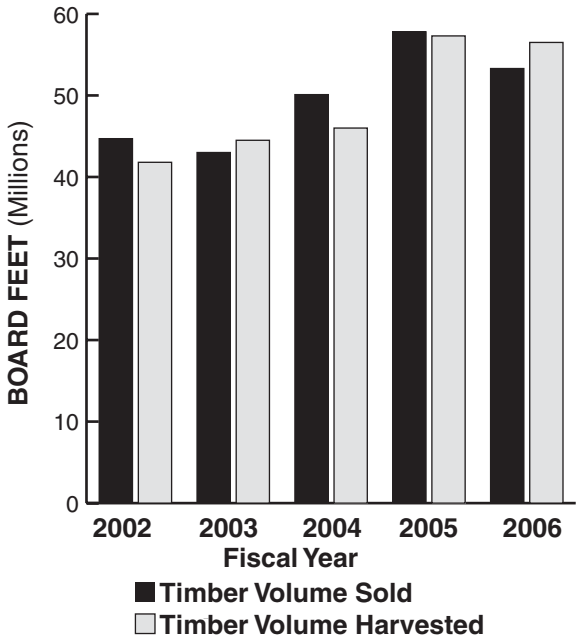
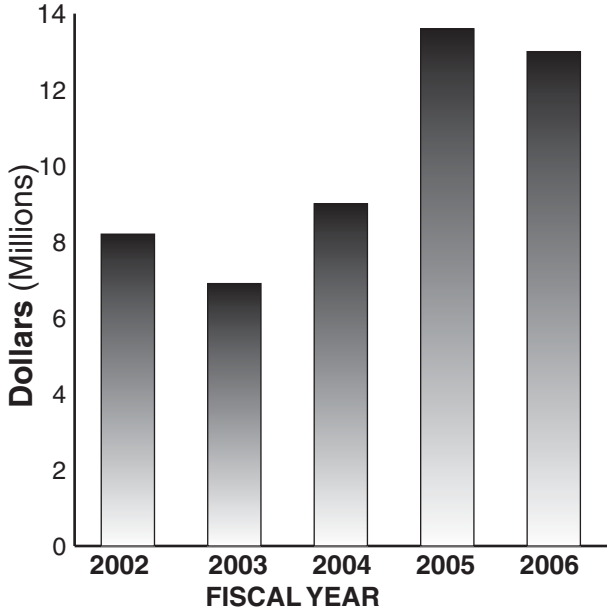


Figure 22
Timber Revenue Generated



on volume sold dropped from $56.80 per thousand board feet in FY 2005 to $18.46 per thousand board feet in FY 2006.

Forest Improvement

The Forest Improvement Program uses fees from harvested timber to improve the health, productivity, and value of forested trust lands. Use of these fees authorized by statute include disposal of logging slash, reforestation, acquiring access and maintaining roads necessary for timber harvest, other treatments necessary to improve the condition and income potential of state forests, and compliance with other legal requirements associated with timber harvest. In FY 2006, the department collected $2,875,277 in Forest Improvement fees. Table 29 shows the amount of Forest Improvement fees collected during FY 2006 by grant.

Table 30 lists the activities conducted to improve the health and productivity of forested state trust lands.

Habitat Conservation Plan

The Forest Management Bureau is developing a programmatic Habitat Conservation Plan (HCP) in cooperation with the U.S. Fish and Wildlife Service. This series of conservation strategies is designed to minimize the impacts of DNRC management activities on threatened or endangered fish and wildlife species, while providing DNRC with long-term management assurances and overall flexibility. The draft conservation strategies for grizzly bear, Canada lynx, and three fish species (Bull Trout, Westslope Cutthroat Trout, Red Band Trout) have been completed and have received technical and public review. Development of alternatives and ongoing analysis is currently being completed in preparation of the draft HCP/Environmental Impact Statement (EIS). The EIS is expected to be available for public review in spring 2007. Completion of the HCP project is anticipated late in 2008.

Forest Inventory

The Forest Inventory Program is responsible for collection and analysis of forest resource inventory data on 730,000 acres of state trust lands. Stand-level resource data and the development and maintenance of a geographic information system (GIS) are used to support planning for forest management activities, environmental analyses, and other activities.

In FY 2006, the inventory program collected 29,500 acres of stand-level inventory data, collected tree data on 773 plots in 66 stands, and updated or added 6,200 miles of roads in the GIS. Each year the Technical Services Section processes and updates changes to the stand-level inventory data layer, road layer, and other GIS layers.

Table 29
FY 2006 Forest Improvement Fees Collected by Grant

Grant Name	Amount
Common Schools	$ 2,225,752
Montana State University–2nd Grant	99,407
Montana Tech	89,248
State Normal School	320,356
School for the Deaf and Blind	28,638
State Reform School	13,584
Public Buildings	98,292
Total	**$ 2,875,277**

Resource Management

The Resource Management Section (RMS) provides technical assistance to field staff in the disciplines of hydrology, soils, geology, fisheries, wildlife, sensitive plants, road engineering, and riparian grazing. Technical assistance provided by the section staff includes field reviews, project analysis, Montana Environmental Policy Act (MEPA) document preparation, recommendation and design of mitigation measures and other contract provisions, and timber sale document review. The RMS also reviews, evaluates, and monitors activities on forested trust lands to ensure compliance with applicable laws, rules, and policies and maintains appropriate levels of resource protection.

In FY 2006, the RMS provided technical assistance on 21 DNRC timber sales and conducted 43 different wildlife, fisheries, soil, and watershed monitoring projects on forested state trust lands.

Minerals Management

The Minerals Management Bureau is responsible for leasing, permitting, and managing approximately 4,160 oil and gas, metalliferous and nonmetalliferous, coal, and sand and gravel agreements on 1.7 million acres of the available 6.2 million acres of school trust land and approximately 1,800 acres of other state-owned land throughout Montana. General background information on bureau activities is available on the department's website: www.dnrc.mt.gov/trust/mmb/

A calendar of key lease activities and dates is posted, and lease sale lists and sale results are available for viewing and downloading.

Table 30
FY 2006 Forest Improvement Activities

Plantation regeneration surveys	502 acres
Tree planting	2,106 acres
Tree browse prevention[1]	1,084 acres
Precommercial thinning	1,537 acres
Noxious weed spraying	4,731 acres
Herbicide application[2]	1,260 acres
Brush piling	1,654 acres
Pile burning	3,792 acres
Broadcast burning	417 acres
Tree improvement areas managed	32 acres
Road maintenance[3]	139 miles
Hand brush work	187 acres
Cone collection	629 bushels
Rights-of-way granted	4 miles
Rights-of-way received	8 miles
Trust lands accessed	4,719 acres
New public access	1,990 acres
Biocontrol bug releases	360 acres
Roads inventoried & database updated	213 miles

[1] Tree browse prevention includes replacing, maintaining, or removing seedling netting or applying a chemical repellant.
[2] Herbicide application is associated with tree planting.
[3] Road maintenance includes grading, snowplowing, removing and maintaining bridges, installing culverts, etc. Many of these activities do not lend themselves to reporting by miles.

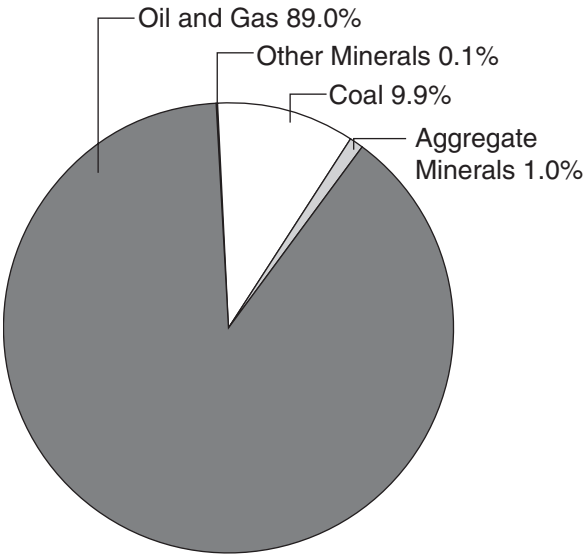
Mineral Leasing

The program is responsible for reviewing and processing all mineral lease and permit applications; advertising, competitively bidding, and issuing new leases; reviewing and approving lease assignments; and collecting, verifying, and posting lease rentals and production royalties. Revenues received in FY 2006 are listed in Table 28; the relative percentage of revenue derived from each mineral type is illustrated in Figure 23.

Oil and Gas Leasing

The program is responsible for the leasing and monitoring of 4,023 oil and gas leases, 578 of which are currently productive. The number of oil and gas leases managed is up 21.9 percent, while the number of currently producing leases increased by 0.5 percent, compared to FY 2005. Activities related to existing leases include collecting, verifying, and posting rental, royalty, delay drilling, and shut-in

Figure 23
Total Mineral Revenue by Mineral Type



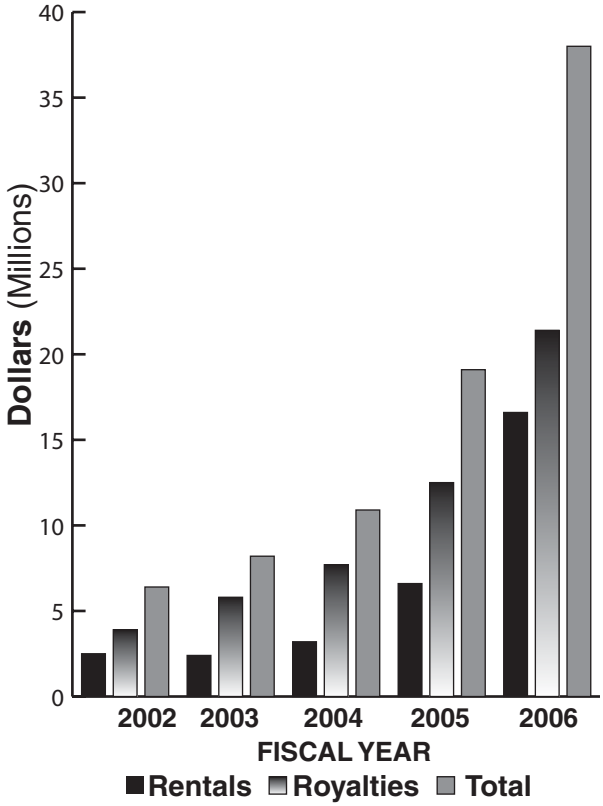
payments; reviewing and approving assignments and tracking working interest ownership; reviewing and preparing for approval communitization agreements and unit operating agreements; and coordinating with field offices the review and approval of all proposed physical operations on state leases. In addition, four oral auctions of new oil and gas leases are prepared and conducted each year.

In FY 2006, 2,024,283 barrels of oil were produced; 7,878,173 MCF (thousand cubic feet) of gas and 1,423,647 gallons of condensate were also produced. Oil production increased 44.6 percent from FY 2005 and the average price also increased by 28.1 percent, to $57.24 per barrel in FY 2006. Gas production in FY 2006 increased 8.8 percent, while the price increased 30.4 percent from FY 2005, for an average price of $6.64 per MCF. Price and production volumes increased significantly in FY 2006, resulting in a 70.4 percent increase in oil and gas royalty revenues, compared to FY 2005. Oil and gas revenues received over the last five fiscal years are shown in Figure 24.

Other Mineral Leasing

The program also administers a wide variety of leases–including metalliferous and nonmetalliferous leases, coal leases, gravel permits, and land use licenses for nonmechanized prospecting–for all other mineral activity on state trust land. In FY 2006, 4,079,399 tons of coal were mined, which is a 9.7 percent increase in production over FY 2005. The

Figure 24
Oil and Gas Revenue
(excluding Seismic Exploration)

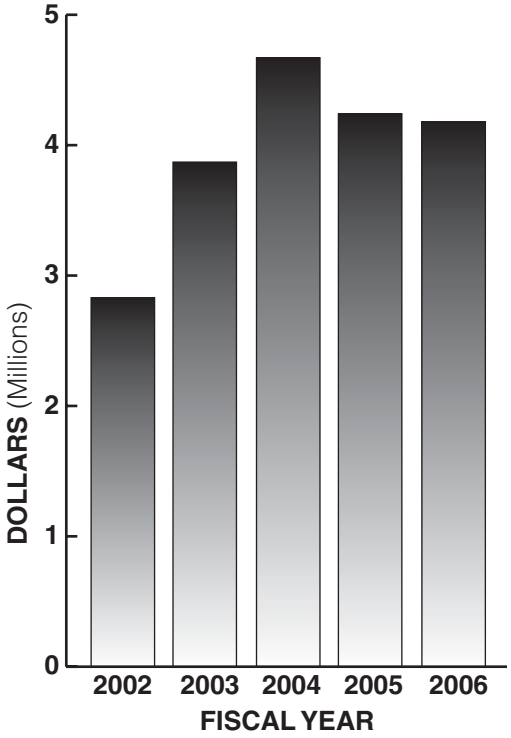


average price per ton increased 2.6 percent from FY 2005 for an average price of $8.63 per ton. Royalties decreased 1.4 percent compared to FY 2005. The volume mined can vary significantly from year to year, as mining activity moves onto or off state trust land within the normal sequence of mining operations. A five-year summary of coal royalties is shown in Figure 25. Royalties and rentals are also collected for minerals such as bentonite, clay, gold and associated minerals, peat, and shale.

Senate Bill 495 (Coal Tax Trust Loan)

Senate Bill 495 (2001 Legislature) authorized the department to borrow from the coal tax trust, place the loan proceeds into the Common Schools Permanent Funds and redirect a fixed amount of future royalties. These royalties would otherwise have been deposited into the Permanent Fund, as required by the Federal Enabling Act. The redirected royalties cover debt service on the loan, with the remainder distributed to school equalization. FY 2006 debt service costs were $13,104,719. More information is available on the bureau's website, www.dnrc.mt.gov/trust/mmb.

Figure 25
Coal Royalties



Royalty Auditing and Accounting

The Royalty Audit Program provides additional revenue to the school trusts through programmatic audits. The program identifies royalty under- and over-reporting, rectifies discrepancies, and raises the level of voluntary compliance. Most audits have a single payor and involve multiple leases.

In FY 2006, audit activity remained steady and continued to reflect improved levels of compliance. Three audits were completed with assessments totaling $113,615. An additional 13 audits are in progress, four with preliminary assessments of amounts due ranging from $3,862 to $621,422.

Riverbed Leasing

The Minerals Management Bureau continues its efforts to clarify title to the beds and islands of navigable rivers. Pursuant to statute, the state owns those lands below the low-water mark; islands and their accretions formed in the riverbeds after statehood; and abandoned channels formed by avulsion. Because two navigable rivers in Montana flow through areas with major oil and gas resources, the department has conducted numerous riverbed studies to determine and document state ownership of land. This process allows the state to take a progressive position in issues involving substantial royalties.

In FY 2006, the program managed 17,834 acres of leased riverbed and island tracts. These tracts provided the state with $851,061 in oil and gas revenues while generating an additional $697 from other mineral leasing activity. This same ownership review process is also becoming increasingly important in areas where surface development and/or use encounters beds, islands, and abandoned channels of navigable rivers. The department continues to work with state, federal, and private entities whenever ownership issues arise.

Otter Creek Tracts

Great Northern Properties and the DNRC completed the Otter Creek Property Summary Report. The report incorporates existing and newly acquired coal data to produce a detailed analysis of the coal resource for potential development. This information has been distributed to interested companies and is available on the MMB website.

Real Estate Management

The Real Estate Management Bureau (REMB) administers activities on lands classified as "other" and all secondary activities on lands classified as grazing, agriculture, or timber. The sources of FY 2006 real estate management revenues are summarized in Table 28, and each is shown as a percentage of the total real estate management revenues in Figure 26. Income over the last five years is illustrated in Figure 27.

For more information on the REMB, please visit our website at www.dnrc.mt.gov/trust/remb/.

Figure 26
FY 2006 Real Estate Management Revenues by Source

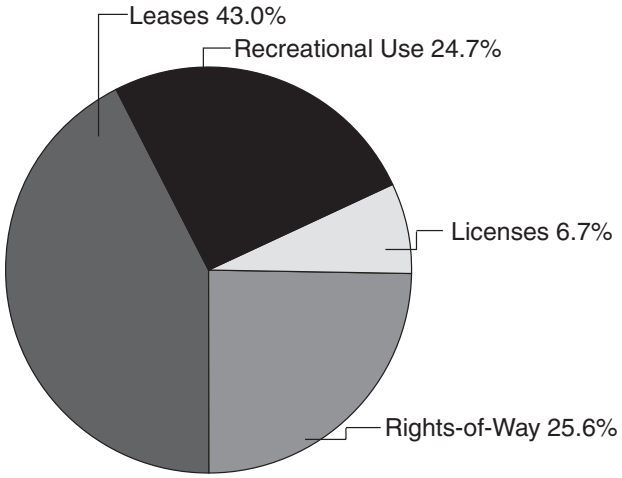
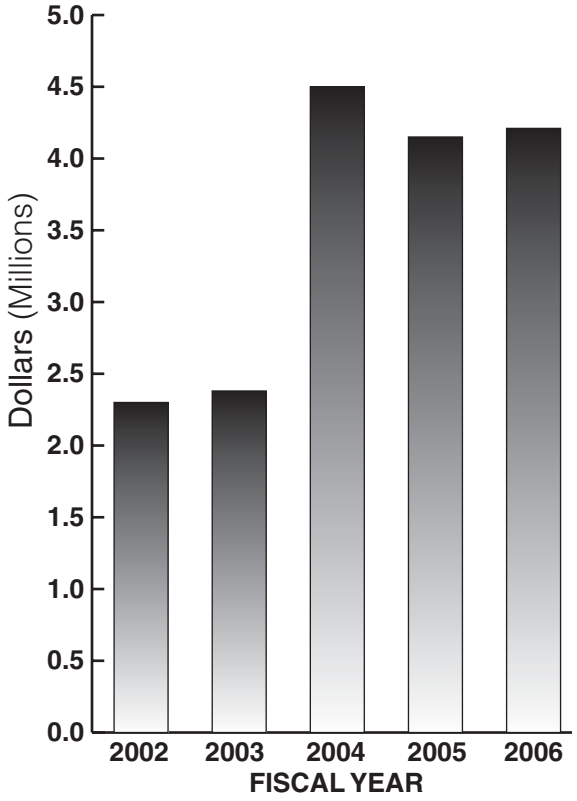


Figure 27
Real Estate Management Revenues



Leasing/Licensing

The Property Management Section actively plans and develops tracts of land with high potential for residential, single- and multi-family residential and commercial leases. Commercial development of trust land in urban areas has the possibility of increasing revenues by more than $1 million over the next 20 years. In addition, the section has solicited for and received proposals for development of wind energy on trust lands. Revenues for FY 2006 are listed in Table 28.

In FY 2006, lease and license activity generated revenue of $2,096,455, which reflects an increase of $133,049 compared to the prior year. The greatest revenue increases were in the areas of residential ($105,643) and developed recreation ($33,758). The change in residential lease revenue reflects the continued phase-in cycle of the 5 percent of appraised value. Residential income is expected to consistently increase annually due to all leases reaching the full 5 percent rate by 2012 and new values from the Montana Department of Revenue in late 2007. The developed recreation revenue increased rates for some of the lease agreements. Table 31 details the lease and license review for FY 2006.

Land Sales and Acquisition

Fifty-five parcels totaling 26,145 acres were processed in the Land Banking Program, and 10 parcels were auctioned in FY 2006, totaling 2,645.2 acres. The highest value parcel auctioned was an 85-acre tract in Section 36, a residential subdivision in Kalispell. The parcel was auctioned for $6.4 million. The remaining parcels were isolated grazing land in Chouteau and Treasure counties and were auctioned for the minimum bid amount of $550,400. Total land banking sales of $6,950,400 will be recorded in FY 2007 due to the closing dates of the sales. Of the $6,950,400 sales, 99 percent was attributed to Common Schools and the remainder to the State Reform School Trust. DNRC solicited nominations for possible acquisition properties, and parcels are being evaluated for acquisition to replace sold acreage.

Exchanges

Four land exchanges are in various stages of completion, including the CB Ranch, Creech, Five Valleys, and Lolo exchanges, all within the Southwestern Land Office.

Non-Trust Land Activity

The department facilitated the following transactions involving state property:

- Transfer of a parcel in Boulder, from the Department of Corrections to Jefferson County for proposed construction of a methamphetamine treatment center.
- Acquisition (donation) of the Pioneer Cabin and Caretaker's House in Last Chance Gulch, Helena, by the Department of Commerce Montana Heritage Preservation and Development Commission.

Spring Prairie Center

Activity involving the Spring Prairie Center in Kalispell included:

- proposal and lease negotiations with Holiday Inn;
- ongoing construction of a high school;
- opening of Costco, Lowe's, and a fire station;
- sale of 85 acres for land banking;
- ongoing lease negotiations for U.S. Forest Service offices; and
- a bypass easement on the property.

Phase 3 is expected to be under construction in

Table 31
FY 2006 Lease and License Revenues

Agreement Type	Lease Income	Leased Acres	Value Per Acre[1]	License Income	Lease/ License Income	General Fund Leases/ License	Total Lease/ License Revenue
Community facilities	$ 13,149	329.66	$ 39.89	$ 2,762	$ 15,911	$ 0	$ 15,911
Commercial	242,643	211.64	1,146.49	7,334	249,977	13,508	263,485
Communication sites	25,201	30.51	835.82	19,434	44,635	0	44,635
Conservation	85,316	14,577.94	5.85	8,782	94,098	0	94,098
Developed recreation	125,721	845.80	148.64	25,837	151,558	0	151,558
Industrial	45,018	151.27	297.60	1,300	46,318	0	46,318
Institutional	53,937	106.71	505.45	0	53,937	0	53,937
Residential	1,129,418	2,630.23	429.40	350	1,129,768	0	1,129,768
Residential accessory	4,444	103.30	43.02	20,215	24,659	0	24,659
Rural commercial	36,514	721.98	50.58	32,400	68,914	0	68,914
Rural industrial	12,155	1,559.09	7.80	153,810	165,965	4,876	170,841
Other Lease/Licenses	19,293	668.14	28.88	11,383	30,676	1,655	32,331
Total	**$1,792,809**	**21,936.27**	**$ 81.73**	**$283,607**	**$2,076,416**	**$20,039**	**$2,096,455**

[1]**Lease income/leased acres = value per acre**

2006.

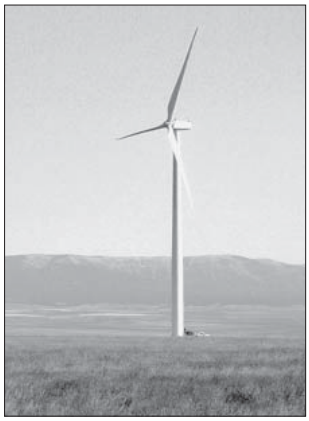
Whitefish Area Trust Lands Neighborhood Plan

Three proposals have been recently presented to the Trust Land Management Division:

- A proposal to construct and maintain a trail system.
- A conservation-oriented land exchange.
- Accommodation of sanitation drainfields, outstanding private access issues, and sanitation system needs for trust land development.

Wind Energy

Construction of the 150-megawatt, 90-turbine Judith Gap Wind Farm started in spring 2005 and became operational at the end of 2005. The wind farm will produce approximately $52,000 yearly for the trust.



Judith Gap wind turbine. Photo by Mike Sullivan

Public review of the Valley County Wind Energy Project environmental assessment was completed in June 2006. The first phase is anticipated to begin operation in 2008 (33 turbines). State-owned lands comprise nearly 2,000 acres in the project and will be home to 43 of the 134 anticipated turbines.

Recreational Use

The total number of wildlife conservation licenses sold in FY 2006 was 440,638, which generated $881,276 in revenue. A total of 5,533 general recreational use licenses was sold with revenue of $52,759.

Rights-of-Way/Easements

Applications for 577 rights-of-way were presented to the Land Board for approval. Of these requests, 474 were historic easement applications submitted under 77-1-130, MCA. The total revenue generated was $1,075,914.

Marketing

A list of residential developers from several western states was developed. The bureau is compiling a similar list of residential and commercial developers from western state government agencies. The list will be used to market other commercial real estate properties for leasing.

Real Estate Management Programmatic Plan

Training sessions for project selection and prioritization were conducted. Preparation of the first Real Estate Identification Team meeting was ongoing.

Restoration Activities on Trust Land in FY 2006

Agricultural and Grazing Management Activities

- Completed inspections for approximately 913 leases containing 1,332 tracts. Twenty-four leases were issued with five-year terms, the balance for 10-year terms. Approximately 26 leases were issued with associated agriculture uses and 91 leases issued with special lease stipulations.
- Conducted 19 cultural/paleontological inventories, covering a total of 5,800 acres of land, including four road easements, one stock water pipeline project, six timber sales, six range renovation proposals, two wind farm development sites, two sod break proposals, and five parcels nominated for Land Banking (3,200 acres).
- Conducted willow collections for the Big Hole Grayling Restoration Project and the Red Rock Grayling Stream Enhancement Project.
- Submitted 56 county weed management biennial performance reports to the Montana Department of Agriculture.
- Collected and redistributed weed biocontrol agents statewide.

Forest Management Activities

- Obliterated 6.17 miles of road in Stream Management Zone (SMZ) areas or where sediment issues were a concern.
- Replaced or removed 19 stream crossings to address fish passage and sediment issues.
- Planted trees on 2,106 acres.
- Completed head gate installations on Beaver Creek and irrigation ditch stabilization associated with Phoenix Timber Sale. Joint project between DNRC and Montana Department of Fish, Wildlife & Parks (FWP) which resulted in restored streamflows in Beaver Creek and reduced sediment in Bear Creek to improve native fisheries and water quality.
- Planted 232,727 trees in the Sula State Forest on 850 acres. Since FY 2002, 566,536 trees have been planted on approximately 2,215 acres.

Tree planting in the Sula State Forest. Photo by Jon Hayes

- Completed a prescribed burn at Elk Creek with the Bureau of Land Management (BLM). The project reduced logging slash and understory fuels. A total of 268 acres was treated, of which 67 acres was trust land and the remainder BLM acres.
- Completed a prescribed burn of 350 acres of trust land and 20 acres of private land west of Sophie Lake in the Northwestern Land Office Area. The project was a cooperative effort with the Rocky Mountain Elk Foundation and FWP to reduce logging slash, prepare seedbeds for regenerating trees, and enhance forage quality and quantity for wintering elk.

Beaver Creek bridge. Photo by Jim Bower

Trust Land Reclamation Projects

- Completed tire pile cleanup at Columbus with assistance from DEQ. The project was completed May 26, 2006, with 3,000 tons of shredded tires and 5,200 tons of burned soil, tires, and debris removed from the site.
- Completed the Dry Gulch Project west of Missoula. The site had been used as an illegal dumping site for trash, household appliances, etc. The cleanup was partially funded by a Montana Renewable Resource grant. Jersey rail fence barricades were installed to restrict vehicle access.
- Completed the Deadman Gulch project, which involved cleanup of an abandoned gravel pit and obliterating a road to restrict vehicle access. Trash and debris were removed and the area re-seeded.
- Completed reclamation of the "Moonscape Pit" area northwest of Shelby. Funding for the project was provided by DEQ from the Abandoned Mine Reclamation Fund.

Tire pile cleanup in Columbus. Photo by Sharon Moore

"Moonscape Pit" reclamation project. Photo by Erik Eneboe

Websites featured in this section:

www.dnrc.mt.gov/trust/
www.dnrc.mt.gov/trust/mmb/
www.dnrc.mt.gov/trust/remb/
www.dnrc.mt.gov/trust/fmb/

Water Resources Division

Water Resources Division

Providing the most benefit, through the best use, of the state's water resources for the people of Montana.

The Montana Constitution affirms that the state's water resources are owned by the State of Montana and are to be used by its people. The Department of Natural Resources and Conservation (DNRC) has statutory responsibility to ensure that the state's water resources are managed to meet existing and future needs of its citizens.

The Water Resources Division (WRD) is comprised of four bureaus – the State Water Projects, Water Management, Water Operations, and Water Rights bureaus – and eight regional offices. The division employs approximately 161 employees, with staff members stationed in the Helena central office and regional offices in Billings, Bozeman, Glasgow, Havre, Helena, Kalispell, Lewistown, and Missoula.

The Kootenai River in northwestern Montana

Further information about the division and Montana water resources can be found on the division's website at: www.dnrc.mt.gov/wrd/.

State Water Projects Bureau

The State Water Projects Bureau (SWPB) administers the operation, management, and rehabilitation of state-owned dams, canals, and hydropower projects under the purview of the DNRC WRD. A complete list of the projects, along with additional information, can be viewed on the DNRC WRD website at www.dnrc.mt.gov/wrd/water_proj/. DNRC also provides professional engineering and rehabilitation assistance on 10 additional water projects owned by the Department of Fish, Wildlife & Parks (FWP). The SWPB markets water from the state-owned facilities primarily for irrigation and administers approximately 1,965 water-marketing contracts through local water user associations. The total combined volume of water marketed by the SWPB per year is 293,609 acre-feet. Revenue from the water purchase contracts, leasing of lands associated with the projects, and net revenue from hydropower generation supplement funds for state water project rehabilitation costs (see Tables 32 and 33). Debt repayment funds are derived from repayment contracts with water users. The SWPB ensures that the projects are operated and maintained in a safe, efficient manner, are kept to current dam safety standards, and repayment contracts are properly administered.

Project Rehabilitation

The Project Rehabilitation Program identifies and corrects safety and operational deficiencies on state-owned water projects. The North Fork of the Smith River Dam near White Sulphur Springs was rehabilitated during Fiscal Year (FY) 2006 with the addition of a new spillway, drain system, and outlet terminal structure. Design work was completed for an abutment stabilization project at Martinsdale Dam. The staff prepared a contract and selected consultants for feasibility studies on Frenchman and Painted Rocks dams. A new gate hoist chain was purchased for installation at Painted Rocks, and the gate hoist control system upgraded. A study is currently under way for rehabilitation of Ruby Dam. SWPB Staff also prepared Renewable Resource Grant and Loan applications for two projects: (1) rehabilitation of Ackley Lake Dam in Judith Basin County and (2) a study on installation of automated monitoring instrumentation at Middle Creek Dam in Gallatin County.

Seepage Monitoring

Seepage monitoring is required as a condition of the operating permits for all dams regulated by the Montana Dam Safety Program. Twenty-two DNRC dams are regulated under the program (see www.dnrc.mt.gov/wrd/water_proj/) and have monitoring wells installed.

The SWPB is upgrading seepage monitoring data collection systems on DNRC's projects as funding allows. To date, instrumentation systems were upgraded on Tongue and East Fork dams during FY 2006 with installation of new data loggers and other associated equipment. At locations where these systems are not in place, measurements are taken by hand. The data are collected monthly, reviewed, and compared to historical trends.

Table 32
Leases Associated with DNRC-Owned Water Projects

Lease Type	Number of Leases	Annual Revenues
Cabin site	26	$13,000
Grazing	5	$ 4,958
Totals	31	$17,958

Project Management

The Project Management Program administers operation of state-owned dams and canals and oversees repayment contracts with water user associations. Additionally, the program protects water rights for the projects and oversees disposal of projects no longer appropriate for state ownership.

Property Management

Several years ago, the State of Montana constructed numerous water conservation projects because the government needed to create employment opportunities and stabilize the agricultural economy. Governmental involvement in some of these projects no longer provides public benefits, so these projects are being transferred to local water user associations, water districts, or private ownership. This program also administers the property assets of active water projects.

Canal Operations

The Canal Operations Program is responsible for identifying and correcting operational deficiencies of 250 miles of state-owned canals. Major activities accomplished in FY 2006 include:

- The Deadman's Supply Canal was renovated after a flood caused significant damage. Approximately two miles of the canal prism were reconstructed and more than one mile of the canal prism was lined with a rubber (EPDM) membrane.
- Initial studies and preliminary construction work have begun to restore the capacity of the Smith Creek Canal, a supply canal for Nilan Reservoir.
- Staff prepared Renewable Resource Grant and Loan applications for two canal projects: (1) the East Fork Siphon Replacement and Canal Lining Project, which proposes measures that would ensure long-term viability of the Flint Creek Water Project near Philipsburg; (2) the Smith Creek Canal Lining Project, which advocates improvements to restore the capacity of a critical supply artery for the Nilan Water Project near Augusta.

Water Measurement and Water Right Activities

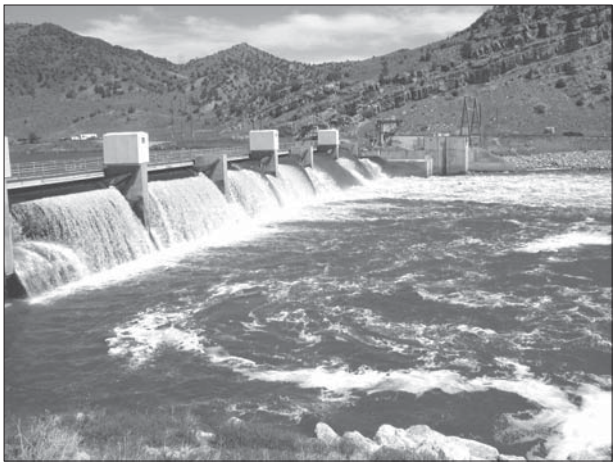
The SWPB is responsible for all water measurement and water right activities associated with state-owned water projects, including tabulation of annual discharge summaries for SWPB gauging stations for the water year (October 1 through September 30).

In FY 2006, the bureau collected and recorded bimonthly reservoir storage data for 18 state-owned reservoir projects; operated and maintained 30 permanent and two temporary stream- and canal-gauging stations associated with state projects; and upgraded five permanent gauging stations with electronic data recording equipment. The staff also measured streamflows and maintained rating tables for staff gauges on the four major tributaries immediately above Painted Rocks Reservoir. Bureau staff also continued consolidating and correcting water rights associated with state-owned water projects.

Hydropower

The Hydropower Program administers the development and operation of hydropower facilities on

state-owned water projects. To date, one hydropower facility, the Broadwater-Missouri Power Project near Toston, has been built. With a maximum capacity of 10 megawatts, the project began generating power in June 1989. DNRC owns and operates the facility and contracts with NorthWestern Energy to sell the energy. Earned revenues help finance the rehabilitation of other SWPB water projects. In an average year (assuming mean runoff), the facility is capable of generating roughly 56 million kilowatt-hours of electricity and earns approximately $3.5 million in revenue from energy and capacity sales. After debt payments and operating expenses, approximately $1.3 million is available to rehabilitate state-owned dams.



Broadwater-Missouri Power Project (Toston Dam)
Photo by Walt Anderson

Most of the water storage projects managed by the SWPB were completed in the late 1930s and early 1940s and have significant needs, either spillway capacity or structural deterioration. The earned revenue from Broadwater is critical for maintaining and repairing these structures so they meet current safety standards and codes. Table 33 shows statistics concerning the Broadwater-Missouri Power Project during FY 2006.

Table 33
FY 2006 Broadwater-Missouri Power Project

Operating availability	93.6%
Gross energy generation (kilowatt-hours)	46,715,313
Gross revenue from sales	$ 3,282,920
Investment income	$ 134,895
Operating costs	($ 481,571)
Bond payments	($1,860,335)
Net Revenue	**$ 1,075,909**

The operation and maintenance staff completed a major lubrication tank-recoating project in September 2005, which accounted for most of the year's offline time. A major rehabilitation project under way for FY 2006 is replacement of the pedestrian/maintenance bridge over the dam. The project is expected to be completed by fall 2006.

Water Management Bureau

The Water Management Bureau (WMB) provides technical, planning, and educational support for: (1) solving statewide water resource issues, (2) addressing water policy concerns, and (3) protecting Montana's interests in regional and international river basins.

Watersheds

During FY 2006, the WMB assisted watershed groups by providing scientific hydrologic support, guidance, and assistance in planning and process. Table 34 briefly summarizes the assistance provided for each watershed.

Protection of Montana's Water

DNRC has statutory responsibility to protect Montana's water resources in interstate and international water allocation and management proceedings. A description of WMB activities during FY 2006 follows.

Columbia River

WMB continued to provide technical information and advice on issues associated with operation of the Columbia River system and the effects of federal decisions on reservoir levels and flows in Montana.

Lower Missouri River

WMB represented Montana on the Missouri River technical committee that reviews and recommends options for the annual operation of the Missouri River main stem system and on another interstate committee charged with coordinating habitat restoration efforts with system operations. WMB also participated in the formation of the Missouri River Basin Association of States and Tribes (MoRAST) that replaced the Missouri River Basin Association.

Milk-St. Mary Rivers

The International Joint Commission established a task force to determine whether current administrative procedures can be modified to allow the United States and Canada to receive a greater share of their apportioned flows in these rivers. The WMB chief was appointed to the task force and WMB staff provided technical support. The WMB representative pushed a reluctant task force to consider lengthening the flow balancing period from bimonthly to annual. This option was identified in the task force report as one that would allow each country to use more of its apportioned share.

North Fork of the Flathead River

WMB coordinated a team of state and federal professionals to participate in the British Columbia regulatory process in the review of the proposed Cline coal mine. The mine would be located just north of the international border within the North Fork of the Flathead drainage of British Columbia. WMB also participated with the governor's office on an agreement between British Columbia and Montana to address transboundary issues.

Poplar River

WMB continued to coordinate with Saskatchewan and the U.S. Geological Survey (USGS) to ensure

Table 34
Assistance Provided to Watershed Groups in Montana FY 2006

Watershed Group	Assistance Provided
Big Hole Watershed Council	Streamflow monitoring, drought planning, endangered species issues (arctic grayling/Candidate Conservation Agreements with Assurances)
Bitter Root Water Forum	Staff support, drought mitigation, water use efficiency investigations
Boulder River Watershed Association	Irrigation efficiency and streamflow study
Clark Fork River Basin Task Force	Development of water management plan and technical support
Upper Clark Fork Steering Committee	General technical support, dewatering, and drought mitigation
Flathead Basin Commission	Nutrient reduction/TMDL implementation, basinwide water quality and quantity monitoring
Granite Headwaters (Flint Creek)	Georgetown Lake operations and Flint Creek flows and seepage losses technical assistance
Milk River Watershed	Water management assistance and water conservation plans; administrative, facilitative, financial, and technical support; canal rehabilitation effort coordination
Ruby River Reservoir Task Force	Streamflow monitoring, assistance with river and reservoir operations
Upper Shields River Watershed Association	Water supply and irrigation efficiencies investigations report
Sun River Watershed Group	Water planning and management, streamflow monitoring
Sweet Grass Water Users	Stream gauging and other technical assistance for water supply study
Upper Tenmile Watershed Steering Group	Facilitation, issues related to streamflow, water quality, habitat, and Superfund cleanup http://water.montana.edu/watersheds/groups/details.asp?groupID=29
Yellowstone River Conservation District Council	Technical support pertaining to mapping, hydrology, geomorphology, and GIS development; staff support

that Montana receives its share of the flow of the East Poplar River in accordance with the International Joint Commission's recommended apportionment.

Yellowstone River

As directed by House Joint Resolution 35, WMB has implemented studies to determine how the Yellowstone River Compact can more effectively protect Montana water users on the four interstate tributaries that are shared with Wyoming. During summer 2006, Montana was able to only partially satisfy two 1886 water rights in the Tongue River drainage, and little water was provided to irrigators in the Powder River Basin in Montana.

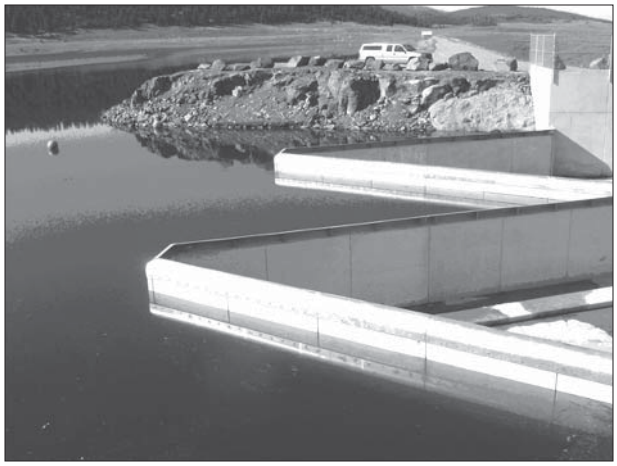
Protection and Use of Montana's Groundwater

WMB reviewed applications for beneficial use; petitioned for controlled groundwater areas; and provided technical oversight of controlled groundwater areas, water reservations, and special projects. In addition, WMB designed, conducted, and reported on field investigations and modeling studies to evaluate water availability and impacts of new or changed water uses on existing groundwater and surface water users.

WMB provided objective scientific opinions on groundwater issues that involved multi-million dollar subdivisions, irrigation, and energy development projects. WMB chaired the Technical Advisory Committee for the Powder River Basin Controlled Groundwater Area and advised the Montana Board of Oil and Gas Conservation on water monitoring to detect effects of coalbed methane production on groundwater resources. In addition, WMB served on technical committees overseeing implementation of the Yellowstone Controlled Groundwater Area that was established to protect geothermal resources within Yellowstone National Park, the Sheridan County Conservation District Water Reservation, the Bozeman Solvent Site Controlled Groundwater Area, the Montana Bureau of Mines and Geology (MBMG) Groundwater Assessment Program, and the Gallatin County Water Resource Task Force.

Water Resource Education

WMB provided water resource education to water users and other water interests across the state. This education provided citizens with the tools and knowledge to solve their watershed and water resource problems. WMB staff at the Montana Watercourse supervised activities of three full-time water education specialists at Montana State University: the Project WET (Water Education for Teachers) Montana coordinator, the Montana volunteer water monitoring coordinator, and the Montana wetlands education coordinator. See more details at www.mtwatercourse.org.



North Fork of the Smith River Dam (after rehabilitation). Photo by Jim Domino

Drought Mitigation

Record-breaking temperatures, accompanied by windy conditions in many parts of eastern Montana, caused about 25 counties to slip into an agricultural/meteorological, or short-term drought in summer 2006. WMB supported and coordinated activities of the Governor's Drought Advisory Committee. The committee is responsible for updating and implementing the Montana Drought Plan. WMB staff helped local water users and groups mitigate drought impacts with grant support. WMB assisted county commissions with the Natural Disaster Determination process. See: www.drought.mt.gov/.

Water Commissioner Training

Staff conducted water commissioner training for 40 commissioners in Helena, periodically helped individual water commissioners, and updated the Water Commissioners Training Manual.

St. Mary Canal Rehabilitation

The WMB worked in concert with other DNRC divisions to move rehabilitation of the St. Mary Canal forward. WMB staff coordinated canal rehabilitation planning efforts for the state, and WMB staff helped obtain congressional draft legislation that seeks to authorize and fund the canal rehabilitation.

Other Water Management Activities

WMB continued to assess effects of deregulation and NorthWestern Energy's bankruptcy on the Toston hydropower facility's Power Purchase Agreement with NorthWestern Energy. Staff reviewed the feasibility of hydropower development at state-owned storage projects.

WMB staff continued to publish the Water Resources Division's newsletter, the Milk River Watershed newsletter, flyers, and other division documents, as well as update the web page for the Water Resources Division.

Water Operations Bureau

The Water Operations Bureau administers the Dam Safety, Floodplain Management, and Water Measurement programs and provides staff support for the Board of Water Well Contractors.

Dam Safety Program

The primary purpose of the Dam Safety Program is to ensure that dams with the potential to cause loss of life downstream, are properly constructed, maintained, and operated. An operation permit is issued for dams found to be safe. Currently, 91 dams in the state are permitted. The Dam Safety Program regulates an additional 2,778 dams where a permit is not required. To obtain or renew an operation permit, the high hazard dam owner must review and update the dam's emergency action, operation, and maintenance procedures and a professional engineer must conduct an inspection. The Dam Safety Program issued 30 operation permits in Fiscal Years 2005 and 2006.

On a permitted dam, construction that could potentially be a threat to the dam's integrity requires a construction permit. The following dams had active construction permits for Fiscal Years 2005 and 2006: Bootjack Lake (Missoula County), Doney Lake (Powell County), Upper Taylor Dam (two permits – Powell County), Glen Lake Dam (Lincoln County), and Basin Creek #1 (Silver Bow County).

When a new dam is constructed or an existing dam repaired, the owner must apply for a hazard classification. A hazard classification is a determination of the potential for loss of life occuring downstream due to dam failure. Five hazard analyses were completed in Fiscal Years 2005 and 2006.

Education and public awareness were also priorities for the Dam Safety Program. In August 2005, staff sponsored a workshop for engineers on concrete design techniques for dams. The Dam Safety Program also assisted in development of the Association of Montana and Canal owners. A two-day educational workshop for dam owners was conducted in September 2005. The Dam Safety Program continued to assist dam owners and local county officials with updating and testing emergency action plans. An interagency project with the State Disaster and Emergency Services is also under way, and dam failure inundation maps below large dams are being digitized for eventual inclusion in county emergency response plans.

Mike Roberts, DNRC Surface Hydrologist, taking samples and measurements of streamflow data. Photo by Rich Moy

Floodplain Management Program

The Floodplain Management Program is responsible for the oversight of 127 locally administered floodplain management programs throughout Montana. Reducing the loss of life and damage to structural property in the event of flooding is the primary goal of the program. A secondary goal is to reduce stream bank erosion by offering guidance for sensible floodplain development. Both goals have been accomplished by providing general technical and engineering assistance to local and state governments, private property owners, and engineering consulting firms through written and e-mail responses, as well as on-site community visits. Approximately 1,000 phone contacts were made. Floodplain information was provided through an up-to-date website: www.dnrc.mt.gov/wrd/water_op/floodplain/.

Within the Floodplain Management Program, the state maintained the Flood Mitigation Program by informing communities of available funding for the costs of removing or elevating structures where multiple flood insurance claims have been filed.

The state has reported progress to the Federal Emergency Management Agency (FEMA) as part of a contract between FEMA and the State of Montana to complete the above-mentioned work. The state also entered into a contract with FEMA for the Map Modernization Program, funded through a Map Modernization Management Support Grant. This program worked with local communities within Montana to digitize current floodplain maps and incorporate any new or existing studies on a countywide or partial county basis. Eight communities with preliminary maps are going through the map adoption process and maps for five counties (Flathead, Missoula, Gallatin, Park, and Carbon) are in production. Additional counties have been slated to begin the map modernization process over the next two federal fiscal years. Those counties include Ravalli, Cascade, Lewis and Clark, Yellowstone, Fergus, and Lake.

To see these digitized maps or view the production status, go to www.montanadfirm.com.

Water Measurement Program

The Water Measurement Program provided technical assistance in measurement of streams and surface water diversions, focusing on streams with significant user conflicts or impacted resources. In the last year, the program consulted on measuring devices on Elkhorn Creek and Rock Creek (Big Hole River tributary). The program also interpreted water supply, snow pack, and climate forecasts for watershed groups, such as the Big Hole River and Jefferson River Watershed groups. The program consulted and assisted efforts by the WMB and FWP.

Parshall flume on Mill Creek. Photo by Dave Amman

Program staff prepared reports for a proposed Echo-Abbot-Peterson Lakes Conservancy District. The feasibility report is being finalized, as part of the petition to District Court.

Georgetown Lake

Modeling of dam operation scenarios continued, based on water availability forecasts. The program operated and maintained streamflow stations and monitored snow pack.

Prickly Pear Creek and Gallatin River

The program operated and maintained streamflow stations assisting the Lower Tenmile and Blue Water Task Force Watershed groups, respectively.

Board of Water Well Contractors

The Board of Water Well Contractors is responsible for licensing water well drillers, water well contractors, and monitoring well constructors. The board also establishes and enforces minimum water well and monitoring well construction standards. Composed of five members, the board includes one technical advisor/hydrogeologist appointed by MBMG, two licensed Montana water well contractors appointed by the Governor, one member appointed by the DNRC director, and one member appointed by the Department of Environemtal Quality director. Each member serves a three-year term.

Licensing

During FY 2005, 288 people were licensed in three categories: 171 water well contractors, 67 monitoring well constructors, and 50 water well drillers. Twenty-five new licenses were issued, while 11 licenses were revoked or not renewed. Four new apprentices were listed with the board. Increased license renewal fees were approved by the board in 2005 for renewals in July 2006.

Complaints and Investigations

During FY 2005, 21 initial complaints and seven formal written complaints were filed against drillers. Of the seven formal complaints, four required board action. In addition, the board investigated three reports of unlicensed drillers.

Public Awareness/Education

Three driller education classes were conducted by the board in FY 2005. The board also visited drillers at projects throughout Montana to provide outreach. A newsletter, *Well Developments*, is also published and distributed to license holders and others interested. Information for property owners about wells and water well drilling regulations is maintained on the board's Internet site and distributed through county

health offices and DNRC regional offices. The board also responded to hundreds of telephone requests by the public for information on water well and groundwater issues.

Water Rights Bureau

The mission of the Water Rights Bureau is to ensure the orderly appropriation and beneficial use of Montana's waters. The two main programs are (1) adjudication, in which the Water Rights Bureau assists the Water Court in identifying and evaluating pre-1973 water uses, and (2) new appropriations, which involve administration and regulation of post-1973 water rights and changes to existing water rights in Montana. In addition to operating the two programs, the Water Rights Bureau is responsible for carrying out the Montana Constitution directive to maintain a centralized water right record system.

Water Right Records

The main methods of accessing water right records by the public are microfiche and electronic formats. With the water right database accessible on the Internet at http://nris.mt.gov/dnrc/waterrights/, electronic records are becoming the most popular. Efforts continued to enhance the wide variety of water right information, forms, and data now available on the Internet at: www.dnrc.mt.gov/wrd.

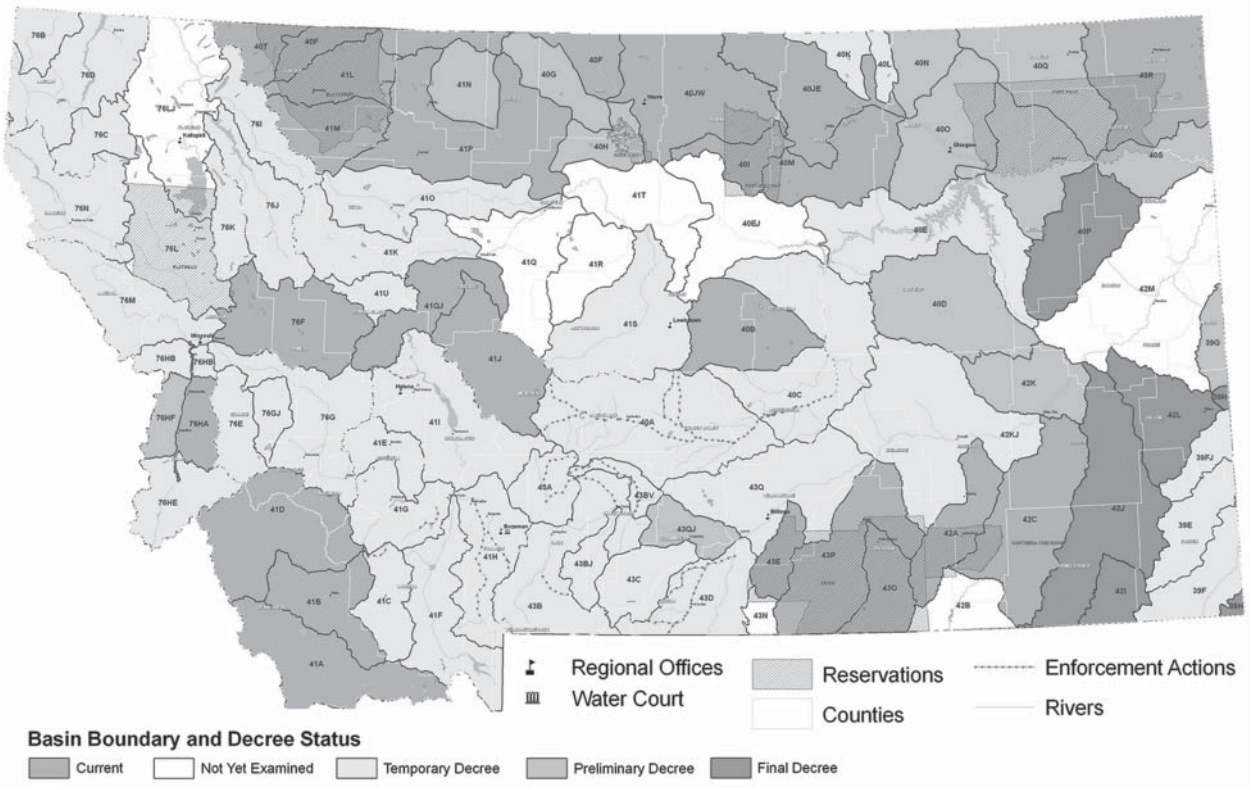
Conversion of permanent records to scanned images served via the web will greatly enhance usefulness and accessibility. Conversion began in FY 2006 with the records in the Teton River Basin. Both water right record images and geographic representation of water right data are viewable at the Natural Resource Information System (NRIS) site: http://nris.mt.gov/dnrc/waterrights/.

Enhancements to the water right database continued to improve flexibility in information gathering and report generation, increase mapping capabilities, and improve customer access and service.

Adjudication

Additional staff were hired under HB 22 to expedite DNRC claim examination and issuance of Water Court decrees in the statewide adjudication process. During FY 2006, 7,119 claims were examined. The first benchmark for claim examination is 8,000 claims by December 31, 2006. Staff also provided post-decree assistance to the Water Court. Regional office staff

Figure 28
Montana General Adjudication Status as of July 2006



joined the court in working with hundreds of citizens to resolve issues and disputes on pre-1973 water use claims. DNRC examined claims in the following basins: Tongue River, Red Rock River, Big Muddy Creek, Two Medicine River, Marias River, Big Hole River, Flatwillow Creek, Jocko River, east side of the Bitterroot River, Smith River, Blackfoot River, and Missouri River between Holter and Sun River.

In addition, WRD staff, the Water Court, and various District Courts worked together to enforce the Water Court's Temporary Preliminary Decrees for the following rivers:

- West Gallatin River (Basin 41H)
- Hyalite and South Cottonwood creeks (Basin 41H)
- Upper Shields River (Basin 43A)
- Cottonwood Creek (Basin 43A)
- Rock, Red Lodge, Clear creeks (Basin 43A)
- Musselshell River and two tributaries, Careless and Swimming Woman creeks (Basin 40A, 40C)
- Sweet Grass and Cayuse creeks (Basin 43BV)
- Big Timber Creek (Basin 43B)
- Mill Creek (Basin 43B)
- Silver Creek (Basin 41I)
- Carlton Creek (Basin 76H)
- Wisconsin Creek (Basin 41C)
- Birch Creek (Basin 41F)

New Appropriations

Applications for various types of water rights are received each year. Table 35 lists applications received during FY 2006. These water rights applications vary in complexity depending on each region's water supply, area-specific competition for water, and the specific project request. Staff in the division's eight regional offices process these applications.

House Bill 22 significantly impacted the New Appropriations program. There was an 80 percent increase in the small groundwater well notices received and a 70 percent increase in the number of ownership update forms received. New appropriations staff helped field calls and assisted with walk-in traffic generated from HB 22 from December 2005 through March 2006.

In response to the number of ownership update forms received, the bureau reviewed the current process used to verify ownership updates and revised the process dramatically. The revised process utilized the Montana Cadastral System extensively. Also, numerous database changes were made to automate the entry of ownership information.

A file reduction plan was implemented to catch up on the New Appropriations file backlog that existed in some offices. The plan was very effective. Today, all regional offices are able to initially review an application within 30 days. The level of scrutiny given to permit and change applications remained high because of administrative rules now in place and because of continued public concern for environmental review, groundwater-surface water connectivity, drought, the complexity of dealing with limits to water availability, and the need to avoid adverse effects.

When applicants and objectors are unable to settle their differences, the file moves into the hearing process. During FY 2006, 15 hearings were conducted. In general, permit and change applications were more complex and contentious. DNRC hired additional staff to conduct hearings, which should result in the ability to schedule hearings within a couple of months of the request. Two controlled groundwater areas were extended another two years (Sypes Canyon near Bozeman and Horse Creek near Billings). A petition for a controlled groundwater area was denied (Four

Table 35
Water Rights Applications in FY 2006

	Received	Processed
Permits	241	190
Changes	61	49
Groundwater certificates	5,824	4,919
Replacement wells	46	26
Basin closure petitions	0	0
Exempt water rights	300	3
Stockwater permits	200	136
Redundant wells	1	1
Water right ownership updates	13,902	13,689
Extension of time	39	61
Project completion certifications	103	136
Petition for groundwater closure	1	1

Corners near Bozeman) and another petition has been heard and the proposal for decision is in the drafting process (Smith Valley near Kalispell).

Regional Offices

Billings

The Billings Regional Office (BRO) continued to provide support for WRD programs and services for citizens in southeastern Montana. With implementation of HB 22, staff provided assistance to the public and processed ownership updates at unprecedented levels. Adjudication staff worked with claimants and the Montana Water Court to mitigate objections to water right claims on the Yellowstone River (Basin 42KJ) and began examining claims in the lower Tongue River (Basin 42C). The Temporary Controlled Groundwater Area near Horse Creek was extended for an additional two years with staff monitoring surface and groundwater levels. Yellowstone County Commissioners expressed similar concern for critical groundwater west of Billings and the BRO responded by monitoring those wells. The BRO has expanded its role with the Dam Safety and Floodplain Management programs since more technical involvement is required when reviewing applications. Local water users are seeing continued low streamflow conditions and increasing competition for water along streams, causing a need for more enforceable decrees. The BRO provided support to both Water Courts and District Courts with enforcement projects on Rock Creek near Red Lodge, and Big Timber Creek and Sweet Grass Creek both near Big Timber.

House Bill 22 significantly impacted the New Appropriations program.

Bozeman

Groundwater development continues to be a very hot topic in the Gallatin Valley. Hearings were conducted on groundwater development proposals in the Four Corners area, which included augmentation to mitigate depletion effects on the West Gallatin River. The Bozeman Regional Office assisted the Gallatin County Commission by participating in a water resources task force. Work continued with the District Court and water commissioner on administration of decreed water rights on the West Gallatin River via water measurement and staff gauge installations. An additional person was hired to examine claims in the Red Rock River Basin. Staff completed research and reports for two certification cases per order of the Montana Water Court (Elk Grove Slough and Willow Creek). Considerable staff time was consumed by the adjudication fee billing process and answering questions regarding water right records. Processing time and backlog of forms and applications have been dramatically reduced through diligent staff efforts.

With implementation of HB 22, staff provided assistance to the public and processed ownership updates at unprecedented levels.

Glasgow

Glasgow Regional Office staff continued to play a key role in basin coordination and assistance to the Milk River Rehabilitation Working Group in developing a long-term solution to water shortages, a failing infrastructure, and Milk River Project re-authorization legislation and funding. Under a U.S. Bureau of Reclamation (BOR) and DNRC cooperative agreement, Glasgow staff assisted with the Milk River Project Irrigation Districts and the Joint Board of Control with water conservation planning as part of a joint cooperative effort. Staff also continued to serve eastern Montana conservation districts by:

Glassgow Regional Office Staff continued to play a key role in basin coordination and assistance to the Milk River Rehabilitation Working Group in developing a long-term solution to water shortages.

- maintaining their water reservation database records;
- providing technical assistance in facilitating the mandated two-year and 10-year reservation development reports;
- processing changes to reserved water rights; and
- assisting with water appropriations planning for the proposed multi-county Dry Redwater Rural Water Project.

In addition to facilitating the orderly development of new appropriations of water within a 10-county area and water use enforcement provisions established by law, staff have very successfully implemented the legislative provisions of HB 22 at the regional office level to expedite adjudication of Montana's waters

and assist the Water Court in issuance of decrees and the resolution of objections to water right claims.

Havre

Havre Regional Office staff provided technical assistance to the Milk River Technical Working Group, the St. Mary Rehabilitation Working Group, the Eastern Tributaries Working Group, and the Milk River Joint Board of Control for the eight irrigation districts that make up the Milk River Irrigation Project. In cooperation with county commissioners, conservation districts, BOR, USGS, Canadian Saskatchewan Water, the Prairie Farm Rehabilitation Administration, Water Survey Canada, and water users on both sides of the Canadian border, staff worked effectively to reduce waste and improve equitable water delivery to mitigate the negative effects of water shortages and the United States/Canada 1921 Compact Administrative Rule limitations. Staff constructively worked with the staff of the Reserved Water Rights Compact Commission on negotiation of the Blackfeet Tribe's federal reserved water rights and on administration of the negotiated federal reserved water rights compacts for the Fort Belknap and the Rocky Boy's Indian reservations. In addition to facilitating the orderly development of new appropriations of water over an eight-county area and water use enforcement provisions established by law, Havre staff have successfully implemented the legislative provisions of HB 22 at the regional office level to expedite adjudication of Montana's waters and assist the Water Court in issuance of decrees (the Teton River Decree was the first Oracle Database Decree issued by DNRC and the Water Court in December 2005) and in the resolution of objections to water right claims.

Staff worked effectively to reduce waste and improve equitable water delivery to mitigate the negative effects of water shortages.

Helena

The Helena Regional Office saw a continued increase in construction of groundwater wells in the Helena Valley as growth spured subdivision development. The office received 88 permit applications for groundwater wells in Lewis and Clark County. Many of these applications were for individual wells requiring a permit in the North Hills Controlled Groundwater Area; others were for new subdivisions developing a community water supply. Staff provided information and guidelines to applicants who have to meet the criteria set forth in MCA 85-2-311.

Reaction created by the HB 22 adjudication fee mailing kept the office extremely busy from December 2005 through the end of the billing cycle on March 31, 2006. The office handled thousands of public inquiries regarding the adjudication fee, ownership updates, and water right assistance.

Kalispell

The Kalispell Regional Office concentrated on water rights and administrative duties in the last fiscal year. A senior staff retirement and subsequent position transfer in FY 2006 left the Kalispell office relying on three new appropriations specialists and one compliance technician to manage water right processing chores. The Kalispell office received work from the HB 22 response between the end of November 2005 and end of March 2006. Processing those forms tookuntil the end of FY 2006 and will consume all of one person's time in FY 2007. Water right complaints and administrative duties occupied the rest of the office time in the last two years and will most likely be the focus in the upcoming biennium.

Lewistown

Significant accomplishments in water right programs in the Lewistown Regional Office included:

- public assistance, records research, and forms processing for thousands of water users/water right applications in respect to the HB 22 billing cycle;

Measuring irrigation flows on Muskrat Creek. Photo by Mike Roberts

- claims examination in the Flatwillow Creek Basin and post-decree assistance to the Water Court in the Judith River Basin;
- technical assistance to water users, water commissioners, and the Water Court for water right enforcement projects in the Musselshell River Basin; and
- assistance to the hearings unit in conducting water right administrative hearings.

Additionally, the Lewistown Regional Office continued to provide water management services and monthly dam safety monitoring and construction oversight at several state-owned irrigation facilities, including rehabilitation projects such as spillway replacement for the North Fork of the Smith River Dam. These services enabled hundreds of water users in central Montana to effectively manage their water allocation while providing safe operating conditions and upgrading project infrastructure.

Missoula

Staff spent considerable time working on the HB 22 adjudication billing effort. Tasks included: fielding thousands of calls and working with walk-ins who had questions about their bills; rectifying thousands of addresses in the water right database to get the bills into the hands of the water right owner; and processing the hundreds of ownership updates and other water right filings that the billing generated. Staff also participated in the accelerated adjudication effort in the Bitterroot through claim examination in Sub-Basin 76HA, provided Water Court assistance, and accepted responsibility to examine the claims in the Jocko River Sub-Basin on the Flathead Indian Reservation. Staff were successful in eliminating the backlog of new appropriation applications and provided multiple training sessions to realtors, title companies, and the general public to improve compliance with water right requirements. Missoula staff worked with SWPB on the Painted Rocks Dam Project overseeing construction of a new gate hoist system; hiring and training a new operator for the project; and planning for rehabilitating gates and roller chains. They also worked with county floodplain coordinators to improve consistency in implementation of floodplain regulations and the accuracy of floodplain maps.

Water Management Bureau Chief, Rich Moy, installing streamflow equipment. Photo by Larry Dolan

Websites featured in this section:

www.dnrc.mt.gov/wrd/
www.dnrc.mt.gov/wrd/water_proj/
http://water.montana.edu/watersheds/groups/
www.mtwatercourse.org
www.drought.mt.gov
www.dnrc.mt.gov/wrd/water_op/floodplain/
www.montanadfirm.com
http://nris.mt.gov/dnrc/waterrights/

Appendix A

Appendix A

Funding Information Concerning the Resource Indemnity Tax and the Coal Severance Tax

Resource Indemnity Tax

1. The **Resource Indemnity Groundwater Assessment Tax** (RIGWA) is a 0.5 percent tax of the gross value of the product of certain mineral mining (see Figure A-1). The tax was originally created in 1973. Mineral production, including coal, small metal mine production, talc, vermiculite, limestone, and other "*nonrenewable merchantable products extracted from the surface or subsurface of the state of Montana*" (15-38-103, MCA), is taxed. In addition to RIGWA proceeds, an 8.6 percent share of the **Oil and Gas Production Tax** is distributed to the **Resource Indemnity Tax Trust** (RIT Trust) and its associated accounts (15-36-324, MCA).
2. The **Metalliferous Mine Tax** is a tax on "*the annual gross value of product*" of all metal mine production or precious or semiprecious gem or stone production (5-37-101 et seq., MCA). The tax rate is 1.81 percent of the annual gross value over $250,000 for concentrate shipped to a smelter, mill, or reduction work (15-37-103, MCA). For gold, silver, or any platinum-group metal that is dore, bullion, or matte and that is shipped to a refinery, the tax rate is 1.6 percent of the annual gross value over $250,000 (15-37-103, MCA).
3. The **Groundwater Assessment Account** was created in 1991 (85-2-901 et seq., MCA). The purpose of the account is to fund a statewide Groundwater Assessment Program that will monitor the quantity and quality of the state's groundwater. The program is staffed by the Montana Bureau of Mines and Geology in Butte. An oversight committee reviews all expenditures, approves monitoring sites, prioritizes areas, coordinates information, and evaluates reports.
4. The **Orphan Share Account** was created in 1997 (75-10-743, MCA). The purpose of this fund is to provide funding for remediation and reclamation projects where the party responsible for the contamination no longer exists. The Montana Department of Environmental Quality is charged with administering the account. For projects with multiple parties, the state will participate in negotiations to ensure that a fair allocation of the responsibilities for cleanup is made. In these cases, a lead party will be responsible for proceeding with cleanup. All parties will participate financially, to the extent that they were responsible for the contamination. The portion of the contamination caused by parties that no longer exist is called the *"orphan share,"* and these costs may be reimbursed if funds are available within the Orphan Share Account. If sufficient funds are not immediately available, reimbursements will be made over time as funds are deposited into the account.
5. The **Resource Indemnity Tax Trust** (RIT Trust) was created in 1973. No funds deposited into the trust can be spent until total deposits exceed $100 million. This protection is provided in Article IX, Section 2, of the Montana Constitution. Trust fund proceeds are invested, and the interest earnings are distributed to several natural resource programs.
6. The **Environmental Contingency Account** was created in 1985 (75-1-1101 et seq., MCA). The Governor has the authority to approve expenditures from this account to meet unanticipated public needs. Specifically, the statute limits projects to the following objectives: (1) to support renewable resource development projects in communities that face an emergency or imminent need for the services or to prevent the failure of a project; (2) to preserve vegetation, water, soil, fish, wildlife, or other renewable resources from an imminent physical threat or during an emergency, not including natural disasters or fire; (3) to respond to an emergency or imminent threat to persons, property, or the environment caused by mineral development; and (4) to fund the Environmental Quality Protection Fund. Each biennium, $175,000 of the RIT Trust interest earnings is allocated to this account. The balance in this account cannot exceed $750,000.
7. The **Oil and Gas Production Damage Mitigation Account** was created in 1989 (85-2-161, MCA). The Board of Oil and Gas Conservation may authorize payment for the cost of properly plugging a well and reclaiming and/or restoring a drill site or other drilling or producing area damaged by oil and gas operations. The site must be abandoned, and the responsible person either cannot be identified or refuses to correct the problem. Each biennium, $50,000 of the RIT Trust interest earnings is allocated to this account. The balance in this account cannot exceed $200,000.
8. **Renewable Resource Grant and Loan Program** receives a minimum of $2 million in RIT Trust interest earnings per year, or $4 million for the biennium (85-1-604, MCA). The Renewable Resource Grant and Loan Program was created

in 1993 by combining the Renewable Resource Development Program and the Water Development Program. The purpose of the grant program is to fund projects that conserve, develop, manage, and preserve water and other renewable resources. Projects include construction and rehabilitation of existing water supply systems and wastewater systems, educational efforts, feasibility studies, development of water storage, enhancement of renewable resources including recreation, reduction and advancement of agricultural chemical use, and improvement of water use efficiency (85-1-602, MCA).

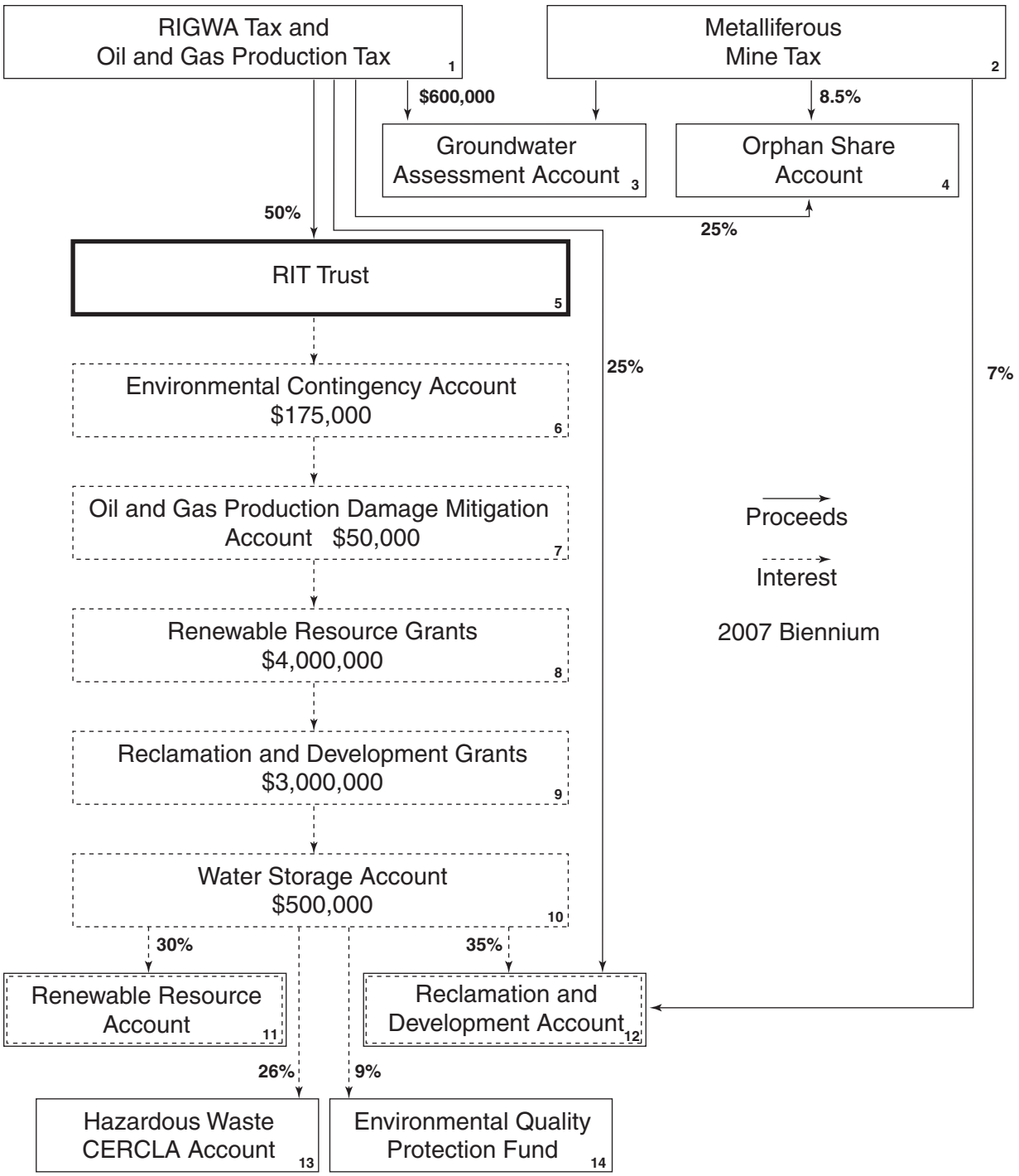
9. The **Reclamation and Development Grants Program** was established in 1987. This program receives a minimum of $1.5 million in RIT Trust interest earnings per year, or $3 million per biennium. Purposes of the program are: (1) to repair, reclaim, and mitigate environmental damage to public resources from nonrenewable resource extraction; and (2) to develop and ensure the quality of public resources for the benefit of all Montanans (90-2-1101, MCA). Projects have included plugging abandoned oil and gas wells, reclaiming mine sites, controlling nonpoint source pollution, researching new technologies for mine waste cleanup, conducting groundwater studies to determine the extent of contamination, and cleaning up pesticide contamination.
10. The **Water Storage Account** was established in 1991 (85-1-701 et seq., MCA). The purpose of the account is to provide funding for projects that rehabilitate existing water storage facilities or develop new ones. Priority is given to high hazard, unsafe dams. Each biennium, $500,000 of RIT Trust interest earnings is deposited into this account.
11. The **Renewable Resource Grant and Loan Program State Special Revenue Account** receives 30 percent of the remaining interest earnings from the RIT Trust (85-1-601, MCA). This special revenue account also receives revenue from excess deposits in the Renewable Resource Debt Service Account and other administrative fees. The revenues are used to fund natural resource agency projects and administration, including administration of the Renewable Resource Grant and Loan Program, the Flathead Basin Commission, the Water Court, MSU-Northern, and the Montana State Library.
12. The **Reclamation and Development Grants Program State Special Revenue Account** receives 35 percent of the remaining RIT Trust interest earnings, 25 percent of the RIGWA Tax proceeds, and 7 percent of the Metalliferous Mine Tax (90-2-1104, MCA). The revenues are used to fund projects and administration of natural resource agencies, including the administration of the Reclamation and Development Grants Program, Montana State Library, and Department of Environmental Quality.
13. The **Hazardous Waste CERCLA Account** is administered by the Department of Environmental Quality (75-10-601 et seq., MCA). CERCLA stands for the federal Comprehensive Environmental Response, Compensation, and Liability Act. This account receives 26 percent of the remaining RIT Trust interest earnings. The account was established in 1983 and is to be used to make payments on CERCLA bonds, implement the Montana Hazardous Waste Act, and provide assistance in remedial actions under CERCLA.
14. The **Environmental Quality Protection Fund** was established in 1985 and is administered by the Department of Environmental Quality (DEQ) (75-10-704 et seq., MCA). This account receives 9 percent of the remaining RIT Trust interest earnings. The purpose of this account is to provide funding for remedial actions taken by the DEQ in response to a release of hazardous or deleterious substances.

Coal Severance Tax

Within 30 days of the end of each calendar quarter, coal severance taxes are paid to the state, and 50 percent of these are deposited into the **Coal Severance Tax Trust Fund** by the Department of Revenue (see Figure A-2 and Table A-1). Six accounts are established within the Trust: (1) the **Coal Severance Tax Bond Fund**, (2) the **Treasure State Endowment Regional Water System Fund**, (3) the **Big Sky Economic Development Fund,** (4) the **Treasure State Endowment Fund**, (5) the **Coal Severance Tax Permanent Fund**, and (6) the **Coal Severance Tax Income Fund** (see Figure A-3).

1. Coal tax revenues that flow into the trust are initially deposited into the **Coal Severance Tax Bond Fund** (Bond Fund) and made available for payment of debt service on Coal Severance Tax Bonds (see Figure A-1). The Department of Natural Resources and Conservation (DNRC) informs the Department of Revenue, during the first quarter of each state fiscal year, of the amount necessary to meet all principal and interest payments on bonds payable from the Bond Fund for the next year (two semiannual payments). The Department of Revenue retains that amount in the Bond Fund.
2. The **Treasure State Endowment Regional Water System Fund** was established to provide

Figure A-1
Allocation of Resource Indemnity Tax Proceeds and Interest



state funding for regional water systems. Initially, the North Central Rocky Boy's Regional Water System and the Dry Prairie-Fort Peck Regional Water System were authorized. Currently, two more Regional Systems are being formed. During the first quarter of each state fiscal year, 25 percent of the amount in excess of what is retained in the Bond Fund is deposited into the Regional Water System Fund.

3. The 2005 Legislature created the **Big Sky Economic Development Fund Program**. This fund provides interest earnings for grants and loans used for economic development projects working with local governments and certified regional development corporations. The program is administered by the Department of Commerce.
4. The **Treasure State Endowment Fund** (Endowment Fund) was established when voters approved the ballot measure on June 2, 1992. During the first quarter of each state fiscal year, 75 percent of the amount in excess of what is retained in the Bond Fund is deposited into the Endowment Fund. The Department of Commerce notifies the Department of Revenue when interest earnings are needed to fund local infrastructure projects. The Department of Revenue then transfers the interest earnings from the Endowment Fund into the **Treasure State Endowment Special Revenue Account** (Revenue Account). The Department of Commerce then approves disbursement of funds to authorized local governments. Interest earnings not transferred to the Revenue Account for projects are retained in the Endowment Fund.
5. The Coal Severance Tax Permanent Fund (Permanent Fund) receives no new tax proceeds. The fund balance within the trust is invested by the Board of Investments. The earnings from the Permanent Fund are deposited into the General Fund. State law states that up to 25 percent of the Permanent Fund can be invested in the Montana economy.
6. Investment income on the deposits in the Bond Fund, the Contingency Loan Fund, and the Permanent Fund is periodically transferred into the Coal Severance Tax Income Fund. The entire balance in the Income Fund is transferred into the General Fund on a monthly basis.
7. Under the Coal Severance Tax Loan Program, the state sells coal severance tax bonds and loans the proceeds to local governments for various infrastructure projects. The borrowers make semiannual or annual loan payments, which upon receipt are credited to a **Debt Service Account**. The terms of the loans

Figure A-2
Allocation of Coal Severance Tax

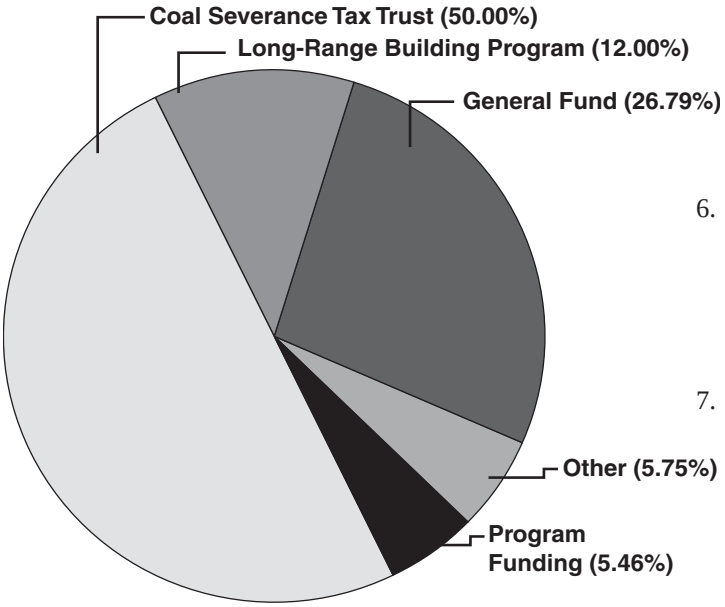


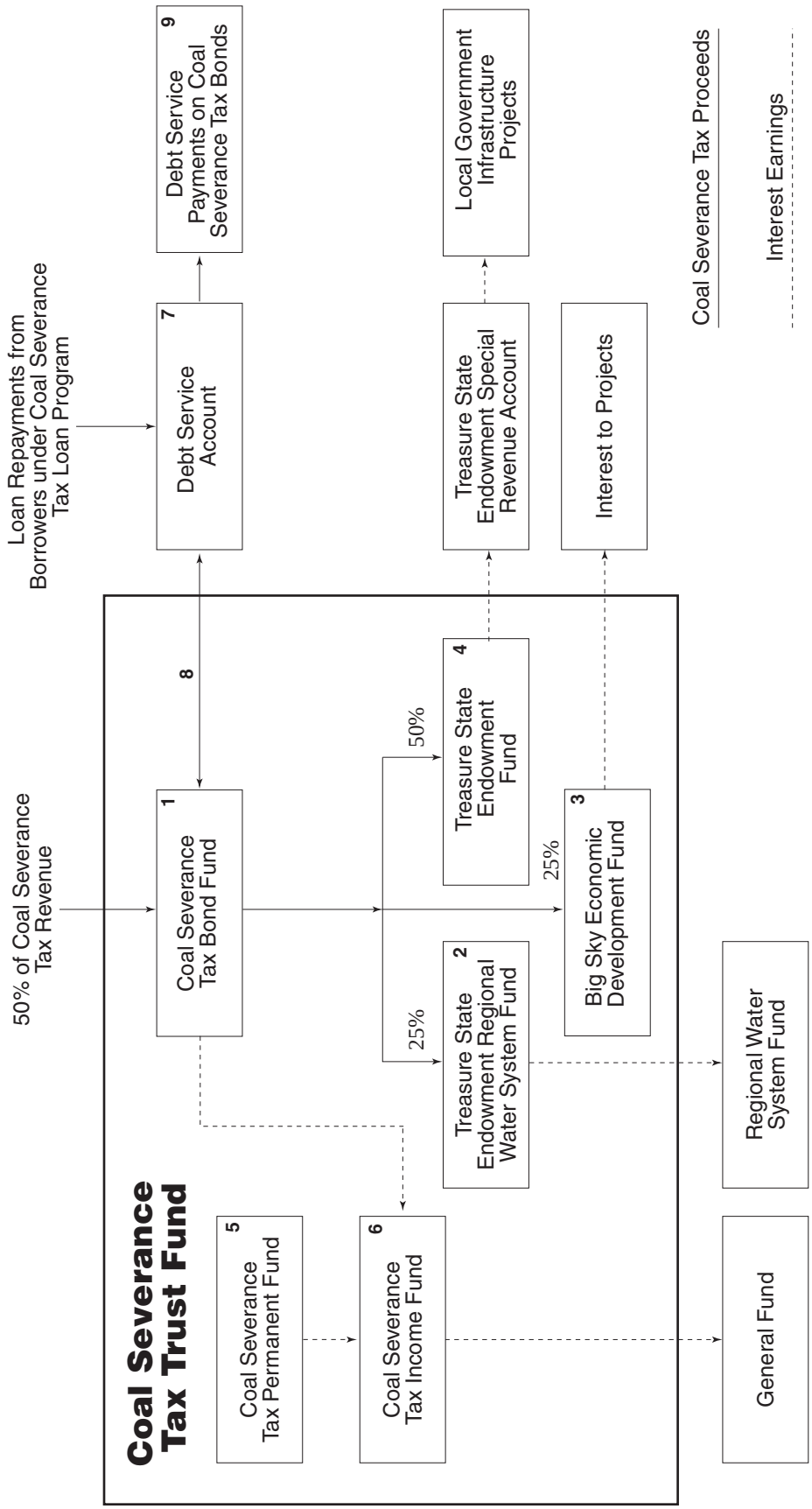
Table A-1
Allocation of Coal Severance Tax

	Tax Allocation	FY 2006 ($1,000)	FY 2007 ($1,000)
Coal Severance Tax Collections	100%	$ 31,602	$ 32,268
Coal Severance Tax Trust Fund	50.00%	15,801	16,134
General Fund	26.79%	8,466	8,645
Long-Range Building Program	12.00%	3,792	3,872
Program Funding	5.46%	1,726	1,762
Other			
Oil, Gas, and Coal Natural Resources	2.90%	917	936
Parks Acquisition and Management Trust	1.27%	401	410
Renewable Resource Loan Debt Service	0.95%	300	306
Cultural and Aesthetic Trust and Capitol Art	0.63%	199	203

vary, but generally involve an interest rate subsidy for the first five years of the loan followed by a direct pass-through of the interest rate on the state bonds for the remaining life of the loan. The loan program and debt service accounts are administered by DNRC.

8. Debt service payments on the bonds are due each June 1 and December 1. To the extent that funds on hand in the Debt Service Account are insufficient to pay principal and interest on the bonds when due, funds are transferred into the Debt Service Account from the Bond Fund. On January 1 of each year, funds are transferred into the Debt Service Account from the Bond Fund to the extent necessary to cause the balance in the Debt Service Account to equal one-twelfth of the next two ensuing semiannual debt service payments. DNRC provides written notice to the Department of Revenue if funds are needed to pay debt service or to make the required transfer on January 1. On January 1 of each year, DNRC also sweeps the Debt Service Account of funds in excess of one-twelfth of the next two ensuing semiannual debt service payments. The excess is returned to the Bond Fund in repayment of borrowed money, if necessary, or deposited into the Renewable Resource Grant and Loan Program State Special Revenue Account.
9. On each June 1 and December 1, the state pays debt service on the bonds from amounts on hand in the Debt Service Account. Payments are made by DNRC.

Figure A-3
Coal Severance Tax Trust Fund Flow of Funds Summary



Abbreviations

AUM	animal - unit - month
BIA	Bureau of Indian Affairs, U.S. Department of Interior
BLM	U.S. Bureau of Land Management
BOGC	Board of Oil and Gas Conservation
BOR	U.S. Bureau of Reclamation
CARDD	Conservation and Resource Development Division, DNRC
CD	Conservation District
CDB	Conservation Districts Bureau
COE	U.S. Amry Corps of Engineers
CREB	Clean Renewable Energy Bond
CRP	Conservation Reserve Program
DEQ	Montana Department of Environmental Quality
DNRC	Department of Natural Resource and Conservation
DPWRA	Dry Prairie Regional Water Authority
DWSRF	Drinking Water State Revolving Fund
EA	environmental assessment
EPA	U.S. Environmental Protection Agency
EPDM	ethylene propylene monomer
FER	Final Engineering Report
FONSI	Finding of no Signigicant Impact
FWP	Department of Fish, Wildife & Parks
FWS	U.S. Fish and Wildlife Service
FY	Fiscal Year
GIS	Geographic Information System
HCP	Habitat Conservation Plan
MACD	Montana Association of Conservation Districts
MBMG	Montana Bureau of Mines and Geology
MCA	Montana Code Annotated
MCF	Thousand Cubic Feet
MEPA	Montana Environmental Policy Act
MoRAST	Missouri River Basin Association of States and Tribes (formerly Missouri River Basin Association)
MRCDC	Missouri River Conservation District Council
MSCA	Montana Salinity Control Association
NILE	Northern International Livestock Expedition
NPS	nonpoint source
NRCS	Natural Resources Conservation Service
NRIS	Natural Resources Information System
PAM	polyacrylamide
PCCR	Pondera County Canal and Reservoir
PER	Preliminary Engineering Report
RC&D	Resource Conservation and Development
RDB	Resource Development Bureau
RDGP	Reclamation and Development Grants Program
RIGWA	Resource Indemnity Groundwater Assessment Tax
RIT	Resource Indemnity Tax Trust
RRGLP	Renewable Resource Grant and Loan Program
RWRCC	Reserved Water Rights Compact Commission
SMZ	stream management zone
SRF	State Revolving Fund
SWPB	State Water Projects Bureau, DNRC
TFID	Tax Increment Financing District
TMDL	total maximum daily load
TSEP	Treasure State Endowment Program
USDA	U.S. Department of Agriculture
USFS	U.S.D.A. Forest Service
USGS	U.S. Geologic Survey
WMB	Water Management Bureau, DNRC
WPAG	Watershed Planning and Assistance Grant
WPCSRF	Water Pollution Control State Revolving Fund
WRD	Water Resources Division, DNRC
WTP	water treatment plant
YRCDC	Yellowstone River Conservation District Council

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500 copies of this document were published at an estimated cost of $5.99 per copy. The total cost of $2,993.00 includes $2,993.00 for printing, and $0.00 for distribution.

Front Cover:

Spring in northwest Montana. Photo by DNRC staff